Large-Scale Mixed-Use Developments as Catalytic Real Estate Projects: Evaluating the Narrative of Neighborhood Revitalization

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Introduction

American central cities have experienced significant influxes of both population and capital investment over the last economic cycle. In conjunction with these trends, real estate developers and city governments have increasingly embraced mixed-use development (MUD). Large-scale MUDs increasingly anchor some of the fastest-developing urban neighborhoods in the United States. They can be either adaptive reuse or new construction, but all have a significant impact on their surrounding neighborhoods. These projects often receive outsize media attention; many are credited with catalyzing further development and sparking neighborhood revitalization. However, these types of MUD are some of the most complex projects in real estate, and placing such large-scale developments in changing or uncertain neighborhoods adds another element of risk. Indeed, today's large-scale urban mixed-use projects make manifest a reversal of 60 years of real estate development and investment practice regarding what kinds of projects could obtain financing in what places. Public and non-profit capital has been a common component in getting these projects built over the last decade.

Examining how these projects fit within the context urban revitalization and how they have overcome traditional obstacles to development can be instructive for public entities seeking to harness that energy to revitalize distressed urban areas. This report will attempt to identify commonalities across projects that have been credited with transforming the market potential of their surroundings, including the characteristics of the neighborhoods in which they are located and the types of financing used. A literature review will provide context for mixed-use development as a revitalization tool, and will discuss obstacles to redevelopment projects as well as the forms of public-private partnership used to encourage real estate investment. Subsequently, a series of case studies will analyze four large mixed-use developments that have recently been built in neighborhoods around the country to identify where and how subsidy and non-traditional capital are being used to encourage so-called catalytic development.

Literature Review

I. "Back to the City" and Neighborhood Change

The historical narrative of neighborhood change in modern American cities is familiar to planners, policymakers, and real estate developers: beginning in the 1950s, the abandonment of once-stable urban neighborhoods by middle class residents and businesses, combined with policies like redlining, left lower-income people with diminishing employment opportunities, declining housing stock, and poor public services. Urban renewal policies exacerbated these trends by demolishing long-established neighborhoods and altering the urban fabric. Decreasing school quality, rising poverty, and the appearance of vacancy and blight created a vicious cycle of disinvestment in most urban neighborhoods (Mallach, 2008).

This pattern started to reverse itself in the 1990s, as demand for urban living rebounded. Now, the preferences of young professionals and baby boomers for walkable urban environments and reduced commuting are increasingly mainstream. According to a 2014 study by the American Planning Association, fewer than 10 percent of Millennials, Gen Xers, and so-called "Active Boomers" anticipate living in a traditional, auto-oriented suburb in the future (American Planning Association, 2014). This shift in demand for urban land has brought about dramatic change in many urban neighborhoods, particularly in locations near amenities like commercial districts, parks, waterfronts, and public transportation. While many U.S. cities continue to lose population and remain economically stagnant, it is undeniable that the cores of certain cities have experienced large influxes of population and capital investment. City boosters, political figures, and real estate investors champion these changes because of their likelihood to increase property values, grow local property tax bases, and enhance overall quality of urban life (Hyra, 2014).

Neighborhoods change over time, cycling between phases of stability, growth, decline, and revitalization. However, these phases vary in duration according to the socio-economic context and policy interventions at play in the neighborhood. Indeed, neighborhoods may not proceed through all the phases, continually looping between the same two or three stages or remaining at the same stage indefinitely (Schwirian, 1983). For decades, many urban core neighborhoods have been stable at low levels of socio-economic wellbeing, with populations with high poverty and urban forms plagued by vacancy and dilapidated structures. Still, a variety of neighborhoods exist in urban cores, and neighborhoods have transformed or

remained stable as their unique assets and built environment interact with larger social, economic, and political systems (Hopkins, 2010).

Marcuse and van Kempen (2000) identify common typologies of neighborhood change over this recent period of increasing demand for urban land, including the expansion of elite and exclusionary enclaves, the establishment of ethnic enclaves, the consolidation of edge cities, and the gentrification of former low-income or working-class neighborhoods in or close to inner cities (Marcuse & van Kempen, 2000). The process of socio-economic change they identify in distressed, low-income neighborhoods would be considered by most planners and policy makers to be "neighborhood revitalization." Inherent in this concept is the enhancement of the neighborhood's connection to citywide and regional markets, through both increased investment in the neighborhood and enhanced income and employment outcomes for residents. Palen and London (1984) point out that neighborhood revitalization can occur through the distinct pathways of spatial mobility and social mobility. Revitalization occurs both as middle- and high-income residents and new businesses move into previously low-income areas and as existing residents and businesses attain higher incomes and achieve other socio-economic improvements (Palen & London, 1984).

How to harness the growing demand for urban land to generate public benefit is one of the central concerns of community and economic development practice. The disparate impacts of the "back to the city" movement on particular parts of cities lends a redistributive lens to place-based public policy, and community development practitioners especially are concerned with bringing economic opportunity to areas that are not participating in overall urban growth. Therefore, it is useful to classify neighborhoods based on their current stage in the cycle of change. Stegman rightly points out that the very act of classifying neighborhoods may reinforce positive or negative trends and lead to oversimplified understandings of local dynamics (Stegman, 1979), but classification also provides a common vocabulary to discuss social processes and enables public authorities to target their interventions more effectively. This study will identify neighborhoods across the following simplified categories:

Declining	Experiencing disinvestment, outmigration, and deteriorating socio-economic indicators: • Declining population and population density • Increasing vacancy • Diminishing incomes • Worsening educational attainment
Distressed	Chronically poor socio-economic indicators: • High vacancy • Low incomes • Low educational attainment
Revitalizing	Experiencing reinvestment and improving socio-economic indicators: • Growing population and population density • Decreasing vacancy • Increasing incomes • Improving educational attainment
Prosperous	Stable high socio-economic indicators: • Low vacancy • High incomes • High educational attainment

II. Property-Led Revitalization

Place-based interventions are a primary tool of neighborhood revitalization. Planners and policy makers attempt to create assets that improve quality of life, making neighborhoods more attractive, healthier, more equitable, and more sustainable places to live and work. These interventions frequently manifest as real estate assets that physically upgrade the neighborhood themselves, like parks or sidewalks, or buildings that attract and house businesses or other service providers (C. Vidal & Keating, 2004). Moreover, as the federal government has increasingly limited its direct involvement with tackling the problems of urban poverty, local actors have placed greater emphasis on market-based approaches to attracting the resources needed to remediate blight and generate economic development in distressed neighborhoods. This market-based approach lends itself to real estate development, as real estate provides investors with collateral and an asset that may potentially appreciate. This contrasts with other market-based approaches, such as improving access to capital for small businesses.

Indeed, property-led economic development – that is, creating the conditions under which real estate investors are drawn to and can extract value from a place – is one of the primary ways local authorities attempt to enhance neighborhood connections to regional markets and encourage economic growth. As Adair et al point out, property occupies a central position in revitalization schemes due to its unique role

in “providing the facilities and space in which economic functions and other activities are carried out” (Adair, Berry, & McGreal, 2003). Furthermore, private-sector property redevelopment as a means of neighborhood revitalization and local economic development is attractive to government officials with limited fiscal resources because it relies primarily on private rather than public investment, produces immediate and tangible results, generates property tax revenue, and can be accomplished incrementally as opposed to comprehensively (Wolf-Powers, 2005).

Sources of private capital frequently demand some form of subsidy before they will invest in redevelopment projects in declining or distressed neighborhoods. Public actors have mostly relied on ways to lower the investor’s financial risk or increase its return. Authorities accomplish this through “subordinated financing, fixed and below-market interest rates, flexible repayment schedules, and guarantees or other forms of credit enhancement (Malizia, 2003).” Economic development tools like tax increment financing and property tax incentives also lend themselves to this gap financing strategy, while Low-Income Housing, Historic Preservation, and New Markets tax credits use the tax code to attract equity investors to revitalization projects.

Development incentives are one of the primary means available to local officials to disrupt the processes of neighborhood decline. Disinvestment in neighborhoods creates conditions whereby deteriorated structures, contamination, and vacancy predominate. In turn, these physical conditions create land market inefficiencies – demand for property diminishes while supply remains relatively fixed, driving down value (Manaf et al., 2013). As a result, publicly supported real estate projects are intended to catalyze further private development by increasing surrounding land values. They do this through the creation of positive externalities for their surrounding districts, including improved public perception, greater awareness of other existing opportunities, and better local amenities. If development successfully attracts new commercial or residential tenants, it provides missing services and bolsters or sparks local markets. By repurposing abandoned or hazardous properties, often including brownfield sites with potential environmental contamination, infill development projects replace eyesores and reweave the fabric of the community. Economic gains in one area should eventually become self-sustaining as deals become more frequent and private investor risk goes down, precipitating a reallocation of public resources to other areas.

In order to generate this new private investment, publicly supported real estate projects must first and foremost communicate restored confidence in the neighborhood and its potential. Most fundamentally, real estate projects can do this by creating market demand, as new residential development may encourage retail development where customers were previously lacking. However, catalytic developments also function symbolically to change the narrative of a neighborhood, creating a demonstration effect through the physical transformation of the area (Adair et al., 2003). In this regard, catalytic development needs to set a high bar for future development by investing in significant quality and attracting higher value users than currently exist in the market. Projects intended to change the local economy must be of a scale that is sufficient to attract significant demand from outside the neighborhood (Malizia, 2003). Ultimately, a project must reduce uncertainty about the economic potential of a neighborhood in order to attract future investment there.

III. Public-Private Partnerships in Urban Redevelopment

Partnerships between government and industry have become the dominant means by which public entities encourage urban redevelopment. One of the more straightforward manifestations of a public-private partnership (P3) is simply "a contract between a government agency and a private sector entity for a public project (Renner, 2016)." However, P3s in the real estate context are typically less concrete and manifest in a variety of ways that enable the allocation of different risks and responsibilities to the public and private sectors. These may include subsidies like the provision of public land, grants, and credit enhancement, as well as gap financing through subordinated debt or patient equity capital (DeGood, 2016; U.S. Department of Housing and Urban Development, 2015). The transfer of some level of financial risk from the private developer and its investors onto the public partner is a common component of urban redevelopment projects.

These arrangements constitute a radical change for planners and local governments, which have moved from acting chiefly as regulators to participating in development as business partners through vehicles like public development corporations or redevelopment authorities. What concessions should be demanded by or given to each party and who benefits most from P3s is the subject of continual debate (Sagalyn, 2007). While P3s are intended to result in synergies that benefit both parties, they may be problematic as a result of imbalances in resources or expertise. Well-resourced organizations are more likely to negotiate the balance of partnership toward their interests. Especially in property development

deals that are part of neighborhood revitalization efforts, local communities may be most likely to lose out because they lack the resources to influence of their private and public partners (Hastings, 1996). Still, Ball, et al, found that private developers also experienced frustration within the context of public partnerships due to slow decision-making and an inability to work in ways that would make projects more profitable for them (Ball, Le Ny, & Maginn, 2003).

Three narratives have evolved around the strategy of public-private property-led revitalization. In one perception, public officials entrepreneurially create land deals that result in revenue for the city and amenities for residents. These deals function like public works projects and benefit the urban economy as a whole, at the cost of large amounts of political capital and persistence by public officials. Alternatively, property-led economic development is seen as an outgrowth of Harvey Molotch's growth machine concept (Molotch, 1976), in which government officials collaborate with urban elites to increase land value and revenue. Officials are complicit in property speculation, gentrification, and the displacement of low-income and middle-class residents as a by-product of policy that prioritizes a market-oriented highest and best use for urban land. Finally, a third way acknowledges that planners can use regulations and incentives to extract broad-based benefits from urban land development. The planner's function is to regulate land in the interest of the wider community; universally seeking the most lucrative use for a given parcel creates diseconomies for cities over the long term and engenders inequitable outcomes (Wolf-Powers, 2005).

The Urban Land Institute has identified several common stages of the development process within public-private partnerships. After a project has been conceptualized and initiated – typically through a public entity's competitive bid process or a developer's application for subsidy – the terms of the partnership must be negotiated. The parties define the project elements, organizational roles and responsibilities, risks and rewards, and decision and implementation processes. Once these have been established, the partnership must build support from stakeholders, particularly civic groups and other public entities. At this point, the partnership assembles financing and begins securing tenant commitments. Finally, the partnership commences with construction, leasing, and asset management (Corrigan et al., 2005).

Establishing clear goals and a shared vision for the project at its outset, as well as verifying its financial and statutory feasibility, are import for both the private and public partners. Indeed, while the public approval process can be protracted and controversial, the distinguishing characteristic of a public-private

partnership is the mutual effort of both sides to "accomplish an outcome that is unattainable without such collaboration." Transparency, trust, and a rational decision-making process are key to the success of the partnership, particularly when real estate deals may pass through several different permutations and modifications before the project is completed (Corrigan et al., 2005).

IV. Introducing Mixed-Use

The term "mixed-use" encompasses a range of development types and is poorly defined. A consensus on the definition of mixed-use development does not exist in the literature, with various authors and organizations disagreeing on the number of uses required or how much revenue must come from each to quality (Huston & Mateo-Babiano, 2013). However, some characteristic elements of mixed-use can be identified. Broadly, mixed-use development involves the integration of multiple real estate uses together on the same site, in one project. These uses are generally a combination of retail, office, and rental or for-sale residential, though some mixed-use developments have included civic space, government, light-industrial functions as well.

The integration of these uses through project planning for a holistic end-product is key to mixed-use development. This contrasts with multi-use development, which may have two or more uses on-site, but lacks an integrated concept, such as a typical building in which offices or apartments are situated over ground-floor retail (Rabianski, 2007). Two primary typologies of mixed-use development are "vertical" and "horizontal." The highest level of physical integration of uses occurs within vertical mixed-use development, where different uses are present within the same building above and below one another. Horizontal mixed-use development involves the placement of uses next to each other (Atlanta Regional Commission, 2016). A final distinguishing factor of mixed-use development is that it is highly non-standard, varying in use combinations, density, scale, configuration, and setting.

Mixed-use development has become increasingly popular, and the Urban Land Institute identifies the prospects for construction of new urban mixed-use projects over the next several years as excellent – higher than any other product type (Urban Land Institute, 2016). In contrast to conventional single-use development, this momentum is driven by public stakeholders supporting a variety of social and economic goals as much as by investor demand. Public officials are interested in the potential for mixed-use development to creatively use in-fill sites and catalyze economic development. Mixed-use development

also has the unique ability to provide for multiple community needs within the context of a single project, as just one mixed-use development can produce jobs, increase housing options, create a profit for a developer, generate additional property tax revenue, and create community amenities.

Development that provides a "live-work-play" concept has emerged as a key component in strategies for better place-making, quality growth, and improved sustainability. It is a truism in planning practice that fine-grain mixing of land-uses contributes to vibrant and successful neighborhoods. Jane Jacobs argued in 1961 for a mix of land uses with peak demands at different times (Jacobs, 1961), creating increased neighborhood vitality and reduced crime through sustained use over the 24-hour period. Mixed-use development also fits into the widespread "Creative Class" approach to economic development inspired by Richard Florida, and public officials champion "integrated experiences with retail and service choices" as a means to attract young professionals (Bell, 2015). To the extent that mixing uses puts different economic and social functions within walking distance of each other, mixed-use development can also minimize environmental impacts by promoting efficient and intensive use of space, reducing the need for vehicle travel, encouraging transit-oriented development, and protecting greenfield sites from urban sprawl (Rabianski, Gibler, Tidwell, & Clements, 2009). Additionally, the efficient land use of mixed-use development has the potential to address concerns about stormwater management and facilitate denser, lower-cost infrastructure networks (Delaware Valley Regional Planning Commission, 2008).

Developers and investors likewise recognize the positive aspects of mixed-use. Not least, the market has spoken in favor of mixed-use development: housing in mixed-use environments in primary urban markets is in such demand that it is now expanding rapidly into secondary markets, like smaller cities and suburban town centers, and is likely to accelerate (Bell, 2015). In a study by HR&A Advisors, office tenants cited employee preferences as motivation for their location decisions, and have moved to mixed-use areas as a tool to attract top-tier talent (HR&A, 2016). Denser mixed-use development allows for a sense of "place," which is increasingly important to ensuring commercial viability in urban markets (Adair, Berry, Haran, Hutchison, & McGreal, 2009).

Mixed-use development also has explicitly financial advantages for a developer's bottom-line. Mixing uses can generate higher rates of return through denser development and built-in demand for retail tenants through onsite office or residential uses. Mixed-use development also diversifies risk across uses that have different property cycles, which can make income streams from the property more resilient. Finally, the

flexibility to redevelop a mixed-use property into different combinations of uses may also yield additional economic value compared to single-use properties. If the costs of conversion are relatively low, the ability to mix and match combinations and proportions of uses to capitalize on market shifts over time can contribute significantly to the overall value of the property. This is particularly true if the returns to alternative uses are not closely correlated and if rents for a particular use are especially sensitive to changes in supply (Childs, Riddiough, & Triantis, 1996).

V. Obstacles to Mixed-Use Development

Despite its current popularity, mixed-use development has been outside mainstream real estate development and investment practice for decades. Developers and investors have traditionally viewed the property market as having four predominant and categorically separate sectors: residential, retail, office, and industrial. Mixed-use developments do not conform to these classifications and are, by their nature, more complex to deliver than single-use developments. Mixed-use projects require both developers and lenders to possess expertise in multiple real estate product types, and frequently involve partnerships between multiple developers with specialties in different sectors. Their extensive customizability and the unique interaction of the uses on a site introduces a level of uncertainty and risk into mixed-use developments, and increases the costs of underwriting projects (Adair et al., 2009).

The complexity and risk associated with mixed-use development has a number of impacts on its feasibility. When developments are perceived to have high risk, the higher required rates of return necessitate quick generation of cash flow. Larger, more complex mixed-use developments must be carefully phased to create revenue in the short run (Gyourko & Rybczynski, 2000). This leads investors to partner predominantly with developers that have already established a track-record of success in delivering mixed-use schemes, which limits these projects to a relatively small cadre of development companies (Johnson, 2007).

Indeed, a mixed-use project must include the right combination of uses and integrate with its surroundings in order to achieve financial sustainability. A critical mass of development and a sense of destination are imperative to attract consumers from surrounding areas, particularly to support retail tenants. Simply placing retail adjacent to or under residential or office may fail if there is not sufficient

demand for their goods and services. In many cases, developers can obtain a rent premium from residential and office tenants that ultimately must subsidize rents for other components (McGwier, 2012).

Not all financing sources invest in all real estate product types. Different debt and equity sources have different parameters and time horizons for their investments, and may specialize in certain product types. As such, there are a great variety of combinations of debt and equity sources that can be brought to a deal, with different lenders and investors taking on different components of the development. In order to optimize the financing of a project, developers can obtain multiple sources of debt and equity financing for both construction and permanent financing. Ownership of mixed-use projects with mixed financing can become extremely complex, involving multiple special purpose entities created to hold property or pass through funding. The ownership of the real estate and the underlying asset security for lenders and investors must be carefully structured to separate the risks of each project component so that they do not excessively affect the other components (Kane, 2004).

Investing in mixed-use developments is further complicated by the different lease lengths typical of different property types. Retail and office leases may last between 5 and 15 years. Alternatively, short term apartment leases typically last one year and increase the level of management required to a degree that few companies have internally. Condominium or other for-sale housing as part of a mixed-use scheme further complicates investment, as homeowners are typically not amendable new construction or to moving out to allow for further development or redevelopment of the property (Northedge, 2005).

The valuation of mixed-use property also remains a barrier to greater investment, as there is no regular benchmarking of mixed-use as a separate asset class. Some investors value each element as though it were independent. Residential property invariably bears a higher yield than commercial space, but valuing these uses separately ignores the synergies possible between uses and likely undervalues the entire development. The need to understand the interaction between the different elements and the effect of less tangible factors like a “sense of place” have partly kept mixed-use developments as a niche asset class. This is especially the case for vertical mixed-use development. On the other hand, it is easier for investors in horizontal mixed-use developments split the elements down to individual uses and put their money discretely into a single-use building (Northedge, 2005).

In years past, these challenges and perceived disadvantages of mixing uses had caused investments in mixed-use projects to have higher yields. However, as mixed-use has become more popular, the risk premium over single-use developments has almost disappeared. This likely indicates that both developers and investors have gained a deeper understanding of mixed-use schemes and are able to better mitigate the associated investment risks (Adair et al., 2009). Even as early as 2000, Gyourko found that risk premiums associated with mixed-use and other new urbanist developments were diminishing over time, particularly in existing communities where acceptance of mixed uses and higher densities were likely to be accepted (Gyourko & Rybczynski, 2000). Their findings suggest that the location of development matters just as much as the mixed-use nature of the asset. Indeed, appetite among investors for yield has pushed investment in new mixed-use development to a variety of secondary real estate markets and less prime locations in primary markets (Bell, 2015).

VI. Obstacles to Catalytic Real Estate Development

Mixed-use development faces an additional set of challenges when attempting to locate in territory that historically has been neglected by developers and investors. Over the last several decades, developers and investors have preferred to invest in suburban greenfield developments, and their perception of risk has caused them to limited their exposure to urban properties outside a few stable, prosperous neighborhoods. Infill sites in declining, distressed, and revitalizing urban neighborhoods present challenges that stem from both their physical and environmental characteristics and the conditions of their surrounding markets. In particular, risk is higher for redevelopment projects in these areas for three primary reasons: regulatory and market risk are perceived to be higher in distressed areas, capital budgets for these projects are more difficult to estimate, especially compared to greenfield sites, and lenders' projections for future urban conditions are less certain than their expectations for suburban conditions. These are examined briefly below.

Planning and Regulation

Urban redevelopment projects can present greater difficulties for developers than suburban greenfield projects as a result of challenges in ensuring the compatibility of adjacent uses. Developers must make initial assumptions about the land-use intensity, design, and end-use of a project, which can be derailed or modified by local officials or neighborhood groups. Obtaining

planning permits may take more time to achieve, exposing the developer to the risk that the market will have changed in the intervening period.

Yield and Rent Growth

The strength and quality of the potential tenant market is of paramount importance, influencing capital costs and profit growth potential. In prime revitalizing areas, the likelihood of a consistent rental income stream and significant potential for rent growth result in lower yield for investors and provides greater value for the developer. However, sites in more distressed neighborhoods are likely to have lower initial levels of demand, resulting in low initial rents and increasing the likelihood that occupancy will be unsteady. Developments in marginal areas are likely to attract weaker tenants, such as small or new firms, that are less able to afford space in preferred locations and are more prone to failure. Investors in marginal projects will therefore seek higher yields to compensate for these risks.

Development costs

The presence of existing structures on urban redevelopment sites contributes to higher development costs. The replacement or renovation of these structures is frequently more expensive than new construction, especially on brownfield sites where mitigating environmental contamination is necessary. Constrained site layouts with awkward access and the need to minimize inconveniences for surrounding buildings can also drive up construction costs (Kramer & Sobel, 2014). If the developer is unable to obtain higher rents to compensate, these costs manifest in lower profits and a lower value for the development overall.

The timing of an investment in a redevelopment project can be instrumental in determining its yield, and has a direct impact on overall development costs. Redevelopment projects have high risks associated with the pre-development, construction, and lease-up periods, and therefore early equity infusions must be more highly compensated. Alternatively, equity investments after significant construction or pre-leasing activity have been completed receive lower returns. Developers are therefore incentivized to self-finance front-end costs as external early stage capital costs can escalate quickly (Malizia, 2003).

Project duration

Redevelopment projects on infill sites tend to have longer pre-development periods compared to greenfield projects due to greater complexity in site assembly, demolition, clearance, and remediation. Delays associated with these processes increase the cost of short term financing for the project and expose the developer to greater interest rate risk. Additionally, the timing with which a project is delivered to market is of paramount importance – delays or mistiming of the redevelopment could result in completion of the project at a time of reduced demand, leading to lower rents and reduced profit (Adair, Hutchison, & Burgess, 2001).

The perception of these risks makes financing projects difficult. Financial institutions tend to concentrate on investing in specific types of property that meet pre-established investment criteria in markets that possess specific characteristics. "Given the highly risk-averse nature of institutional investors, it is perhaps not surprising that they tend to confine their activities to cities and sectors with which they are familiar." Moving development outside familiar submarkets is difficult, "as new investment proposals will be evaluated with reference to established guidelines and previous practice and experience." (Guy, Henneberry, & Rowley, 2002).

Development projects in declining, distressed, or revitalizing neighborhoods are frequently required to cobble together financing from multiple sources. In order to spread risk across a portfolio, institutional investors prefer to provide a lower proportion of private financing for urban revitalization projects at the same interest rate as they would charge similar projects in less marginal locations. Malizia (2003) also suggests that lenders prefer to provide smaller sums as a way to avoid charging risk premiums based on a project's location in poor, predominantly minority neighborhoods, which may leave them vulnerable to charges of discriminatory lending. Moreover, a revitalization project's net operating income (NOI) estimates are likely to be lower and less predictable, warranting higher debt-service coverage ratios and limiting total loan size (Malizia, 2003). At the same time, economies of scale attract investors to projects that are larger than typically feasible in declining or distressed areas – simply, a single $20 million investment property costs less to manage than ten $2 million properties (Guy et al., 2002).

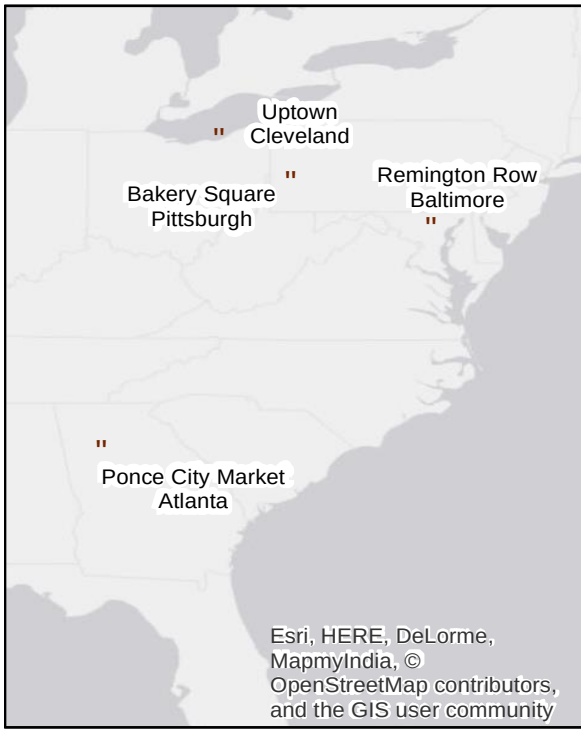
Lenders lower their risk by limiting their exposure to redevelopment projects and by involving other private and public sources of capital in project financing. This applies both to debt and equity financing. In a survey done by Malizia, commercial real estate developers stated that they seek to own as many

projects as possible, using debt capital to leverage available equity. Lower leverage is seen as a disadvantage. Revitalization projects are therefore less attractive on two fronts, seen by investors as both more risky individually and leading to less portfolio diversification collectively (Malizia, 2003).

Case studies

Given the challenges associated with delivering catalytic large-scale urban mixed-use development, both as a niche real estate asset type and as a result of its location in areas that have not traditionally seen significant real estate investment, these types of projects may not appear profitable at the outset. Particularly when using the discounted cash flow method to evaluate a real estate investment, high-quality development frequently does not pencil out (Leinberger, 2001). There is therefore at least a perceived need for public sector assistance, which the public sector provides and justifies in the name of economic development. Through a series of case studies, this study will test assumptions about the role of large mixed-use developments as market-based tools of neighborhood revitalization. A basic demographic analysis of the development's surrounding neighborhoods prior to and after construction will provide insight into the characteristics of neighborhoods that investors target. In particular, the analysis will attempt to identify the point in the cycle of neighborhood change at which developers have decided large-scale investment is feasible, and at what level of subsidy: Do these developments truly catalyze neighborhood revitalization, or are they simply entering a neighborhood that is already beginning to revitalize? Is real estate subsidy being invested in the neighborhoods that need it, and does the amount of subsidy correspond to the level of neighborhood distress?

Figure 1. Mixed-Use Development Case Studies



The following section will examine four prominent mixed-use developments that have been constructed over the last decade to address how they were financed, and what external factors contributed to or complicated their development. These cases in Atlanta, Baltimore, Cleveland, and Pittsburgh were selected based on their notoriety, having received extensive news coverage locally and nationally, and based on their acclaim as economic development successes. Cases were limited to vertical mixed-use projects, thus ruling out economically significant mixed-use redevelopment projects like Atlanta's Atlantic Station, Boston's Seaport District, or Brooklyn's Navy Yard. These types of large, horizontal mixed-use

developments function like discrete neighborhoods and are constructed over longer periods, making them essentially different from a single mixed-use real estate project that impacts and must integrate with an existing neighborhood. The cases were also chosen to represent different development types, with two new construction projects and two historic renovation projects, and a variety of markets. The study was only partially successful in the last regard, with time and data restrictions resulting in an over-representation of older, mid-sized, and rust-belt cities. Indeed, property-led revitalization may function quite differently in different regions or in cities of differing sizes. A more systematic evaluation may be warranted for future research.

Each case study in this report reviews the demographic trends in the area around a large-scale MUD and the amount of subsidy provided for the development. Levels of neighborhood prosperity, decline, distress, or revitalization are captured both by a qualitative overview of neighborhood history and by Census tract-level data (See Table 1). Five-year estimates American Community Survey (ACS) data as well as Home Mortgage Disclosure Act (HMDA) reporting data provide insight into changes in key socio-economic and property-related variables. A simple examination of racial composition is included as well. The tract containing the MUD as well as the tracts within a half-mile of the MUD were selected as its surrounding "neighborhood," approximating the market with which it needed to integrate and which would support the development. These geographies are compared to demographic trends city-wide.

Table 1. Data Sources used to examine neighborhood change.

Factor of Neighborhood Change	**Proxy Variables**
Socio-economic well-being	Population growth (ACS) Percent of Population over 25 with at least a bachelor's degree (ACS) Median household income (ACS)
Property value	Annual average value of new owner-occupied home mortgages (HMDA) Annual number of owner-occupied homes sold (HMDA) Median gross rent (ACS) Number of vacant residential units (ACS)
Racial composition	Percent of population that is white/non-minority (ACS)

I. Bakery Square

Address: 6425 Penn Ave, Pittsburgh, PA 15206
Developer: Walnut Capital Partners
Neighborhood: Larimer/East Liberty
Public Finance: TIF, Brownfield grant, EB-5, HTC, NMTC
Construction Period: 2007-2010

Neighborhood Context

Bakery Square is located in eastern Pittsburgh on the border of the East Liberty and Larimer neighborhoods. In the 1950's, the East Liberty neighborhood contained Pennsylvania's 3rd-largest shopping district, with more than 500 local businesses, and had a population of 14,000 residents. East Liberty was a working-class area that served as a bridge between the more affluent districts of Highland Park, Shadyside, and Friendship to the west, and lower-income, predominantly minority neighborhoods like Larimer to the east. Urban renewal schemes in the 1960s reshaped Pittsburgh's urban fabric, creating ring roads and constructing high-rise public housing in East Liberty and Larimer. By 1980, more than two million square feet of commercial real estate in the area had been demolished and the neighborhood had lost half its population (O'Toole, 2010). At that time, East Liberty had some of the highest rates of vacancy and crime in the city ("East Liberty is Booming," 2010). Conversely, the surrounding neighborhoods of did not suffer the same pattern of disinvestment as East Liberty. In 2010, Highland Park and Shadyside were home the city's wealthiest and best-educated households, with an average income of more than $81,000 per year (O'Toole, 2010), which was significantly greater than Pittsburgh's median income of $28,000 ("East Liberty is Booming," 2010). The city's major universities, Carnegie Mellon University and University of Pittsburgh, are less than two miles away and are partially credited with preserving the economic and residential base of these neighborhoods (Gipoulon, 2015).

In 1999, a local CDC, East Liberty Development Inc. (ELDI), began a community-based planning initiative to define a new vision for East Liberty. The resulting plan outlined the neighborhood's development priorities, including creating mixed-income residential options and attracting more retail to regain its status as a regional shopping destination. ELDI's efforts were supported by a city-wide effort to aggressively pursue new investment and development. In the early 1990s, the city reallocated general operating budget funds to cover the debt service on a $60 million bond issuance that it used to acquire vacant land and help finance catalytic real estate projects. Among these were two key parcels in East Liberty, which the Pittsburgh Urban Redevelopment Authority and ELDI assisted a private developer in transforming into two major retail power centers (McAvey, Murphy, & Lane, 2016).

Revitalization of East Liberty came in fits and starts. Vacancy remained a persistent problem, and stymied new homes sales as recently as 2008. Ultimately, ELDI embarked on an ambitious property acquisition initiative, purchasing and rehabbing over 50 abandoned homes that were considered to be discouraging investment and exacerbating crime (Fraser, 2011).

East Liberty has largely succeeded in establishing itself as a shopping destination, but did not prioritize affordable housing development. The retail centers were dubbed Eastside I and Eastside II, and were intended to restore community vitality and improve retail options available to East Liberty and Larimer residents. The developer successfully attracted several national retailers, including a Home Depot that opened in 2000 and a Whole Foods that opened in 2002. Trader Joe's followed in 2006. A mix of city bond funds, grants, tax increment financing, and state of Pennsylvania funds covered approximately 50 percent of the Home Depot's construction costs, and the Whole Foods benefited from $10.5 million in NMTC allocation (McAvey et al., 2016). Concurrently and over the course of the 2000s, the city demolished 1,400 high-rise public housing units in Larimer and East Liberty, which were replaced with only 450 mixed-income units by 2010. A 145,000 sf. Target store opened in 2009 on the five acres previously occupied by the Penn Towers public housing complex. There are no good data on where former residents displaced from the public units relocated. A wave of new apartment development has swept the East Pittsburgh submarket, but there is not an apparent effort to ensure adequate access to affordable housing (Morrow, 2010).

In 2010, the narrative of the neighborhood promoted by the URA was one of a "tipping point," helped by the high residential density and incomes of nearby neighborhoods – one report noted that 365,000 people

live within a 10 minute drive of East Liberty ("East Liberty is Booming," 2010). During the mid-2000s, Pittsburgh largely missed the national housing boom and in many communities property values remained stagnant (Grant, 2015). Still, by the end of the decade and during the depth of the Great Recession, nearby districts like Oakland, where the major universities are located, had a zero percent commercial vacancy rate. At the time, Moody's rated the city's overall commercial real estate market as the healthiest in the nation (O'Toole, 2010). In 2013, Eastern Pittsburgh neighborhoods like East Liberty were considered among the most profitable places to flip houses in America (Grant, 2015).

Demographic Trends

The neighborhoods around the Bakery Square development have over time presented more positive market indicators than the city of Pittsburgh generally. While tract-level data are not available for the year construction began, in 2009 census tracts within a half-mile radius of Bakery Square had a higher population density, median income, and percentage of college-educated adults than the city. There area had a larger minority population, with a smaller percentage of white residents at 55% than the city's 68%. Most of these ratios have not changed significantly over time, with the exception of median income: from 2009 to 2015, median income grew 11% in the development area compared to 3% citywide. In 2007, homes in the area immediately surrounding Bakery Square sold on average for $59,000 more than Pittsburgh. This difference declined to $40,000 in 2010, but has since more than doubled: the average home loan in the tracts around Bakery Square was $110,000 more than the average for Pittsburgh in 2010. Likewise, rental properties in the vicinity of Bakery Square have traditionally commanded a premium. In 2000, the median rent for the Bakery Square-adjacent census tracts was $793 per month, or $105 more than the city median. In 2009 area median rent was $52 higher than the city, but that rent disparity had grown back to $105 per month by 2015.

Figures 3.1 – 3.24 support the notion of East Liberty as a bridge neighborhood when Walnut Capital determined to rehabilitate the Nabisco factory. Bakery Square is located on the northern edge of a territory that in 2009 had better educated and more affluent residents than the city generally. The boundary is especially stark in terms of the value of home loans issued, the percentage of college graduates, and the percentage of white residents, where census tracts in the top two quintiles in these categories touch tracts in the bottom quintile.

The Project

Figure 2. The Pittsburgh Nabisco factory in the 1960s.

Bakery Square is a LEED-certified mixed-use renovation of a former Nabisco factory developed by local Pittsburgh developer Walnut Capital. The $130 million project encompasses 380,000 square feet, including 216,000 square feet of office space. The building also includes a 120-room hotel, retail space, and an 800-space parking garage. The development bills itself as "an exciting lifestyle center environment in an affluent and densely populated location, with a new urban aesthetic." Three of the region's top employers – UPMC Hospitals, the University of Pittsburgh, and Carnegie Mellon University – are less than two miles away. The building sits across from Mellon Park and is less than a block from major transportation corridors of Fifth Avenue and Washington Boulevard (Walnut Capital, 2017).

The structure was built in 1918, and was occupied by Nabisco until 1998 when it ceased operations at the factory. The Regional Industrial Development Corporation of Southwestern Pennsylvania (RIDC), a privately-funded nonprofit development corporation, took control of the facility and leased it to another commercial baking operation until the tenant declared bankruptcy in 2004. Sometime between 2004 and 2006, Walnut Capital expressed interest in the property and less than two years after baking operations stopped, the City of Pittsburgh designated the site as "blighted." The building was considered a brownfield, and this designation allowed the state of Pennsylvania to help finance land preparation and cleanup in advance of the sale of the property to Walnut Capital. The RIDC managed the removal of asbestos, PCBs, lead-based paint, underground storage tanks, and other hazardous materials from the site (Environmental News Service, 2007).

Bakery Square is certified LEED Platinum. Walnut Capital was able to keep most of the Nabisco factory and add a tower, while only demolishing a section of the site's 3-story structure. The rest was refurbished. The team implemented a design that diverted 99% of demolition and construction waste by weight, used 13.4% recycled building material content by value, and used 24.2% regionally-sourced building materials by value. On-site "green" technologies include photovoltaic panels for renewable energy harvesting, a

green roof, day-lighting, high efficiency air filters, and low-flow fixtures in restrooms (Western Pennsylvania Brownfields Center, 2013).

A development partner noted that the slow economy at the time had slowed expansion plans for high-end national tenants, and providing opportunities for moderate-priced retailers to aggressively expand into centers like Bakery Square that they would not normally have been able to afford. Still, the development was able to attract high-profile office tenants in the health and technology sectors that included Google's Pittsburgh operations, the University of Pittsburgh Medical Center Technology Development Center, the CMU Software Engineering Institute. Other tenants include sandwich and coffee shops, national retailers, as well as a "maker-space" called the TechShop (Walnut Capital, 2017).

Walnut Capital has since expanded its investments in East Liberty, constructing a 175-unit apartment complex called Bakery Living, and building a new $150 million mixed-use development, both adjacent to Bakery Square (Mishkin, 2014). A Walnut Capital representative described the lease-up of Bakery Living as the fastest he'd ever experienced, and Google has since expanded to an additional 66,000 sf in Bakery Square 2.0 (Fontaine, 2014).

Financing the Project

Table 2. Capital Stack for Bakery Square, 2007-2010

Source	Amount	Percent
Brownfield Grants	$1,335,000	1%
TIF	$10,500,000	8%
Senior Debt	$28,000,000	22%
NMTCs	$13,000,000	10%
Federal HTCs	$3,500,000	3%
EB-5	$30,500,000	23%
Equity	$43,000,000	33%
Total	*$129,835,000*	*100%*

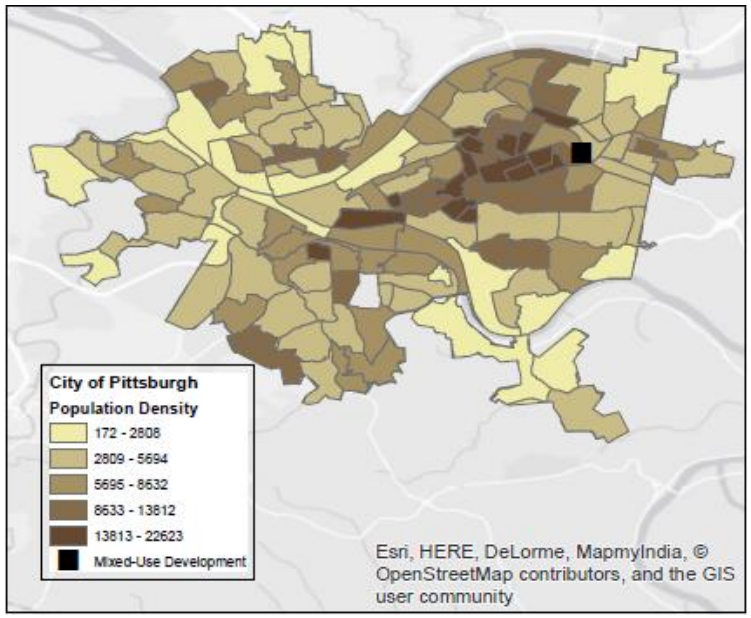
The $130 million Bakery Square redevelopment project required multi-layered financing with significant public investment in site preparation and infrastructure modifications. Before Walnut Capital purchased the property from RIDC in 2007 for $5.4 million (Western Pennsylvania Brownfields Center, 2013), RIDC used a $1 million grant from the Pennsylvania Department of Environmental Protection to, as well as $335,000 of its own budget, to fund the environmental cleanup of the former Nabisco plant. The state money came from the State's Growing Greener II brownfield remediation program (Environmental News Service, 2007). After the transfer of the property in September 2007, the Allegheny County Council approved $10.5 million in Tax Increment Financing for Bakery Square (Urban Redevelopment Authority of Pittsburgh, 2016). $2.59 million of the TIF partially

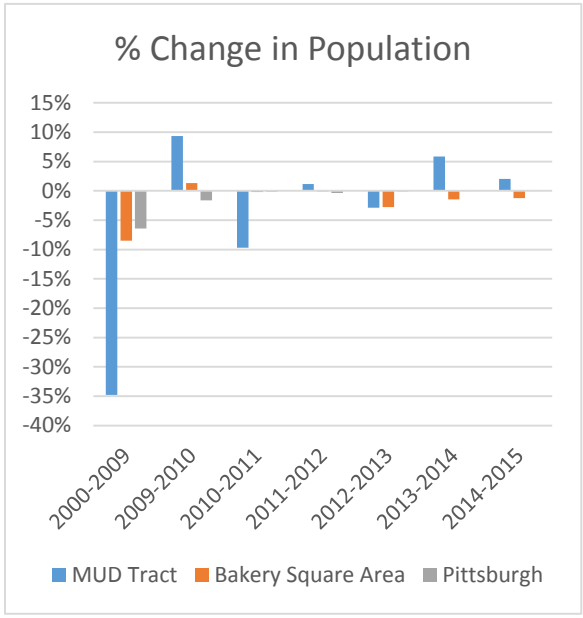
funded an expansion of Penn Circle to accommodate two-way traffic (at a total cost of $5.6 million), while the rest of the TIF was used to pay property taxes, improve turning lanes, street lighting, sidewalks, and pedestrian signaling (Western Pennsylvania Brownfields Center, 2013). The TIF bond for Bakery Square was purchased by a consortium of local building and trade union pensions called the ERECT Funds (Builders Guild of Western Pennsylvania, 2011).

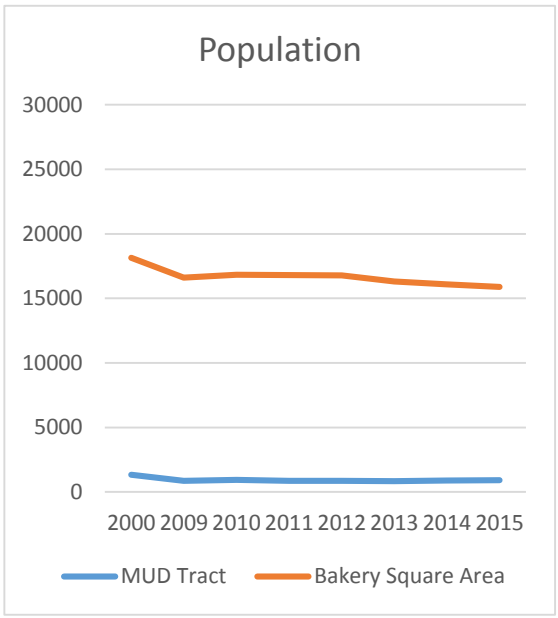
Walnut Capital developed Bakery Square in partnership with the Feil Organization, a New York-based real estate investment, development, and management firm. The Feil Organization purchased a significant equity stake in the project through its subsidiary RCG Longview (Novick, 2012), an investment management firm jointly owned by hedge fund Ramius Capital and the Feil Organization (DEALBOOK, 2009). Approximately $43 million in equity was invested in Bakery Square through the Feil Organization-Walnut Capital partnership. Conventional debt comprised the smallest portion of the redevelopment budget, with Capital One Bank providing a $28 million senior loan ("Bakery Square Development Project," 2008).

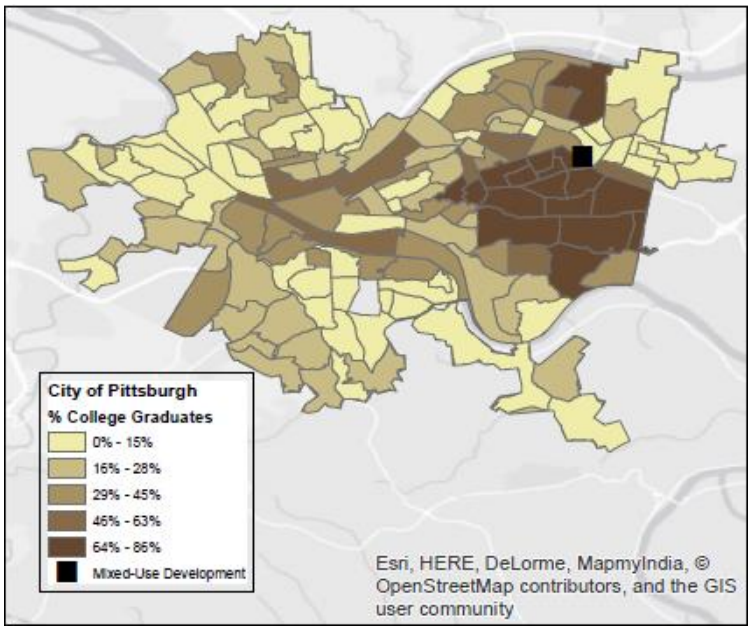
Federal programs were an essential component of the development's financing. Nearly a year after groundbreaking, Bakery Square obtained $13 million in NMTC allocation in December 2008 from a local CDE, Commonwealth Cornerstone Group. The credits were purchased by US Bank. Walnut Capital also obtained $3.5 million in Historic Tax Credits to help fund the renovation (Commonwealth Cornerstone Development Inc., 2011). Finally, and most crucially, the developers attracted foreign investment capital into the project via the EB-5 program. In 2009, the project gained $30.5 million in investment from 61 different investors. The EB-5 investment functions as an interest-only loan for five years, providing attractive financing terms that allowed Walnut Capital to continue construction and attain stabilized occupancy before seeking additional permanent financing (Team Pennsylvania, 2014).

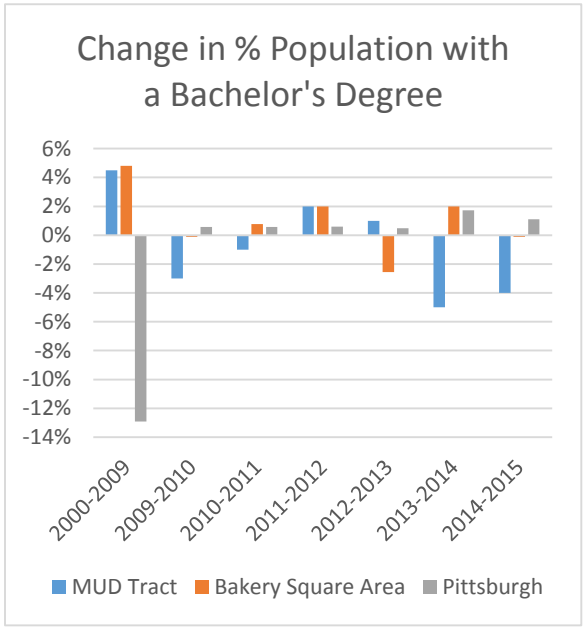
Figures 3.1 – 3.24. Pittsburgh demographic profile (2009) and trends (2000-2015).

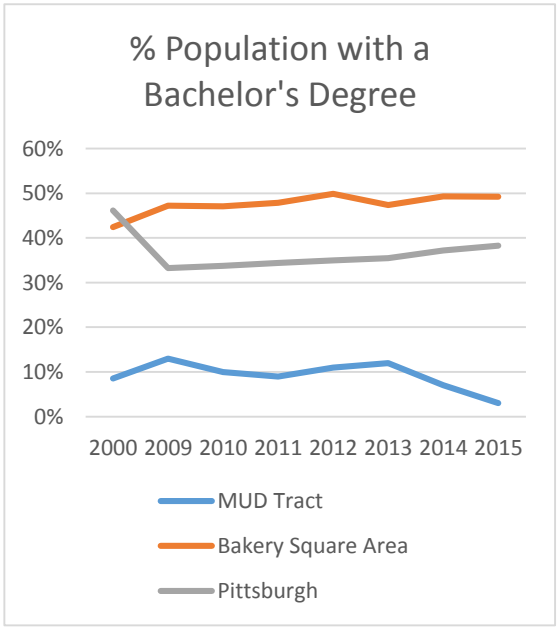


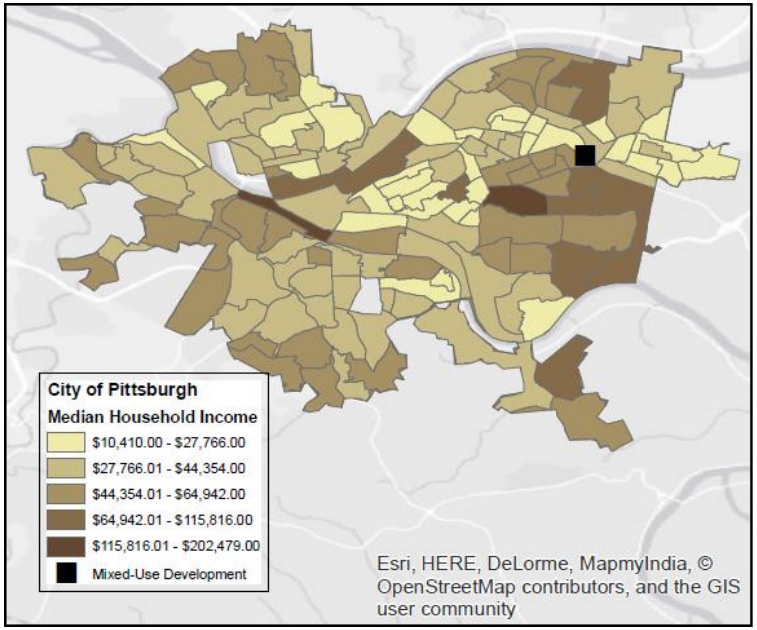











City of Pittsburgh
Median Household Income
$10,410.00 - $27,766.00
$27,766.01 - $44,354.00
$44,354.01 - $64,942.00
$64,942.01 - $115,816.00
$115,816.01 - $202,479.00
Mixed-Use Development
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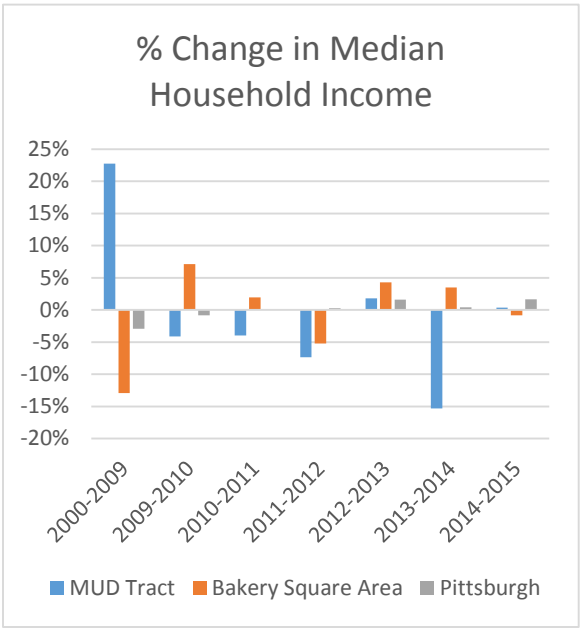
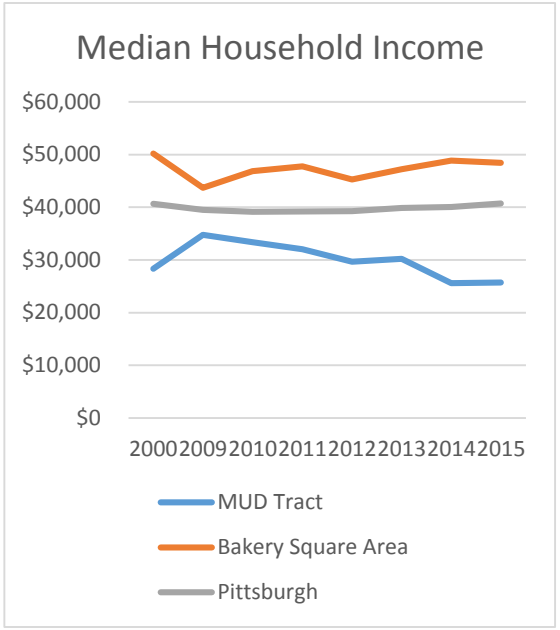
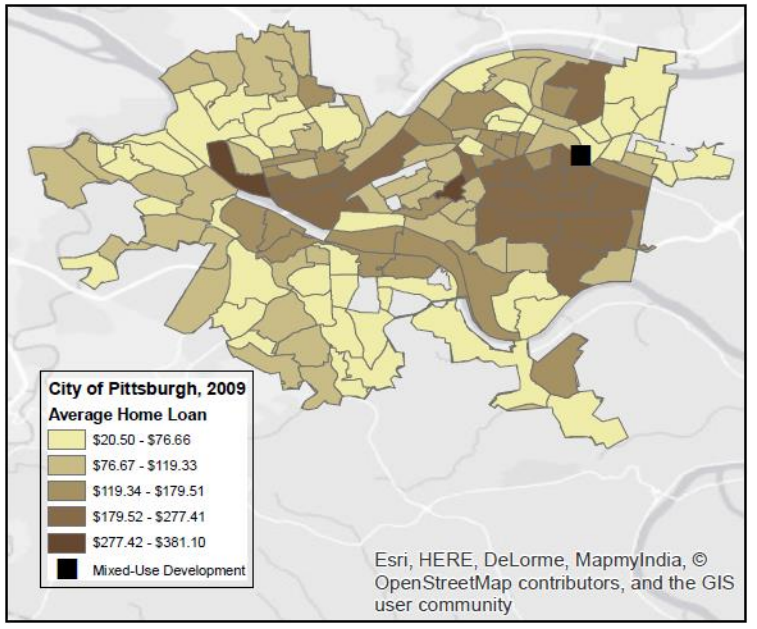

% Change in Median Household Income
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Bakery Square Area
Pittsburgh


Median Household Income
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
2000
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Bakery Square Area
Pittsburgh


City of Pittsburgh, 2009
Average Home Loan
$20.50 - $76.66
$76.67 - $119.33
$119.34 - $179.51
$179.52 - $277.41
$277.42 - $381.10
Mixed-Use Development
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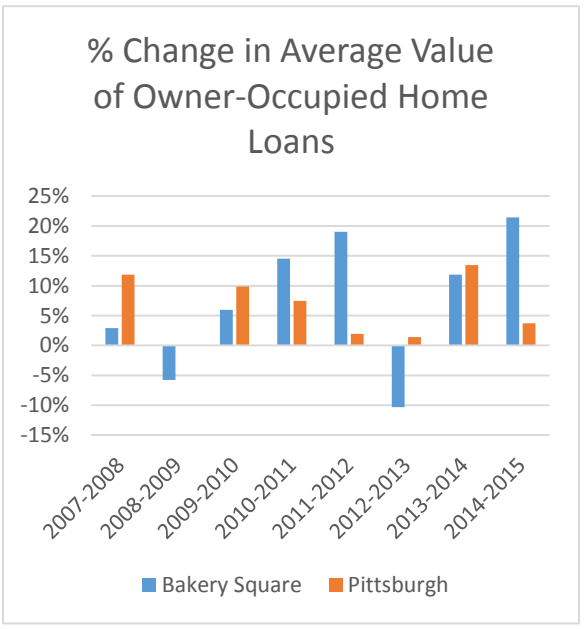
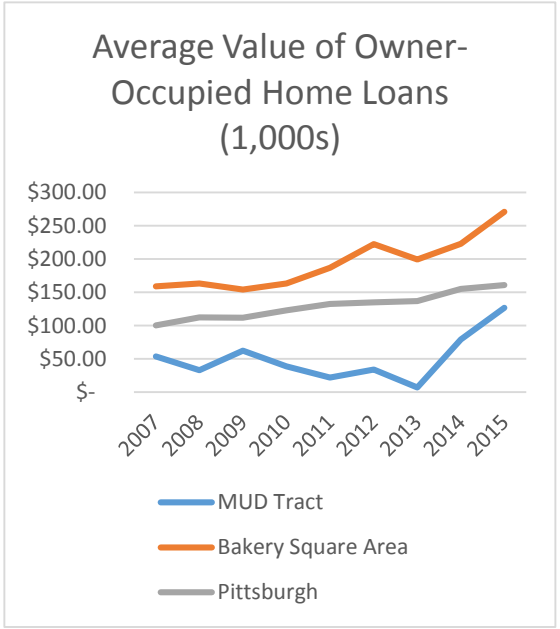
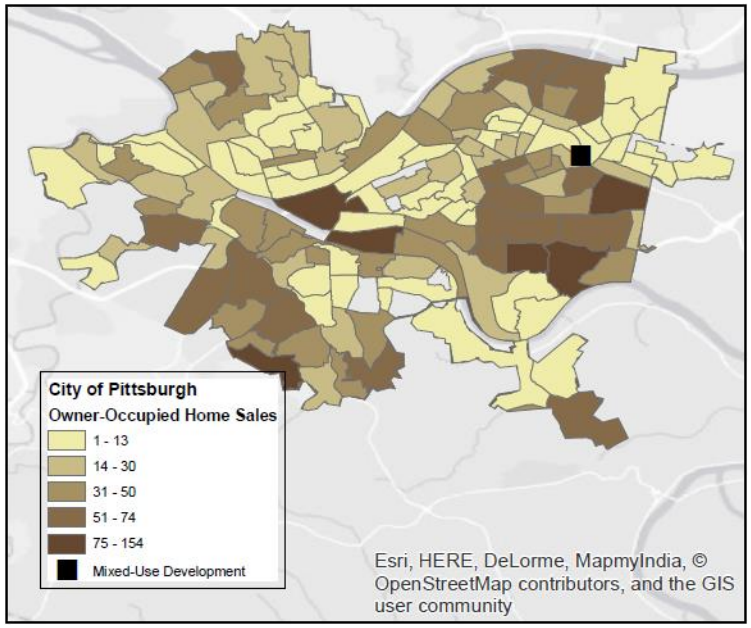

% Change in Average Value of Owner-Occupied Home Loans
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
Bakery Square
Pittsburgh


Average Value of Owner-Occupied Home Loans (1,000s)
$300.00
$250.00
$200.00
$150.00
$100.00
$50.00
$-
2007
2008
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Bakery Square Area
Pittsburgh


City of Pittsburgh
Owner-Occupied Home Sales
1 - 13
14 - 30
31 - 50
51 - 74
75 - 154
Mixed-Use Development
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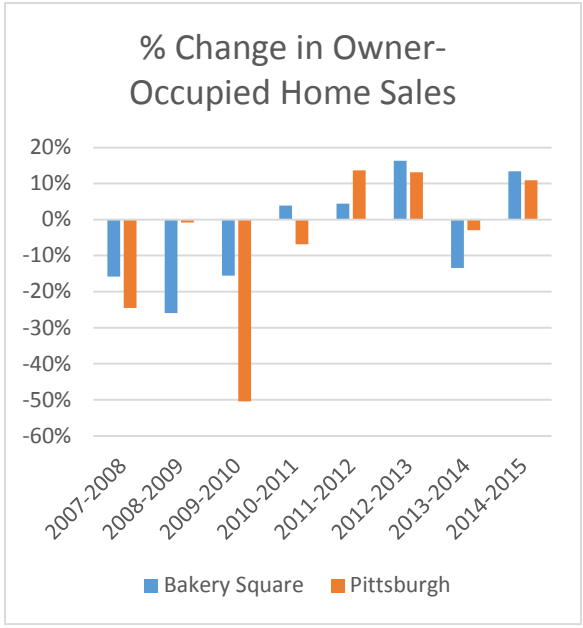
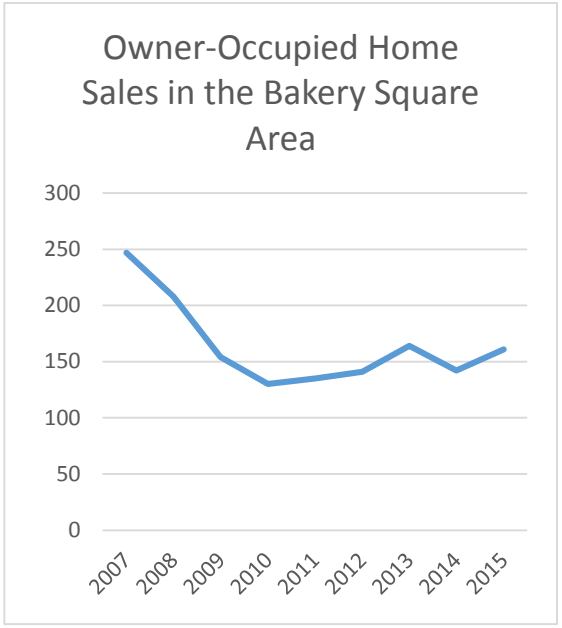
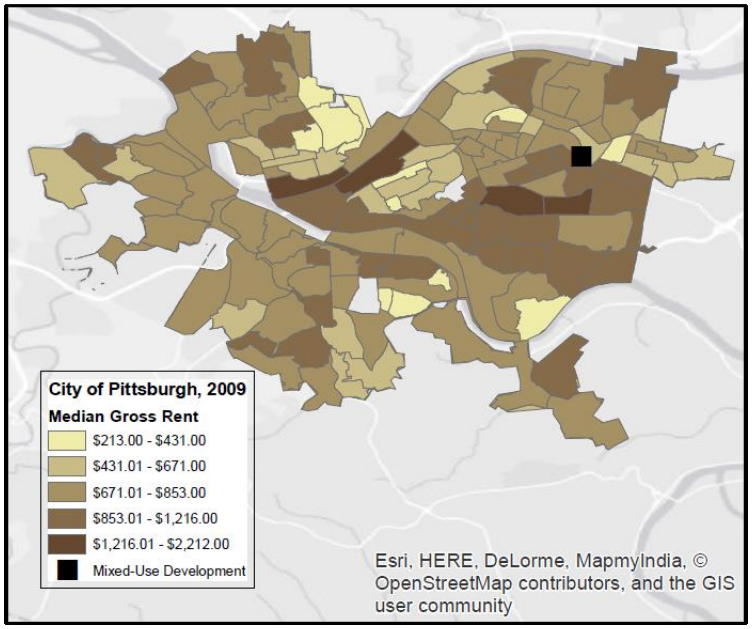

% Change in Owner-Occupied Home Sales
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-60%
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
Bakery Square
Pittsburgh


Owner-Occupied Home Sales in the Bakery Square Area
300
250
200
150
100
50
0
2007
2008
2009
2010
2011
2012
2013
2014
2015


City of Pittsburgh, 2009
Median Gross Rent
$213.00 - $431.00
$431.01 - $671.00
$671.01 - $853.00
$853.01 - $1,216.00
$1,216.01 - $2,212.00
Mixed-Use Development
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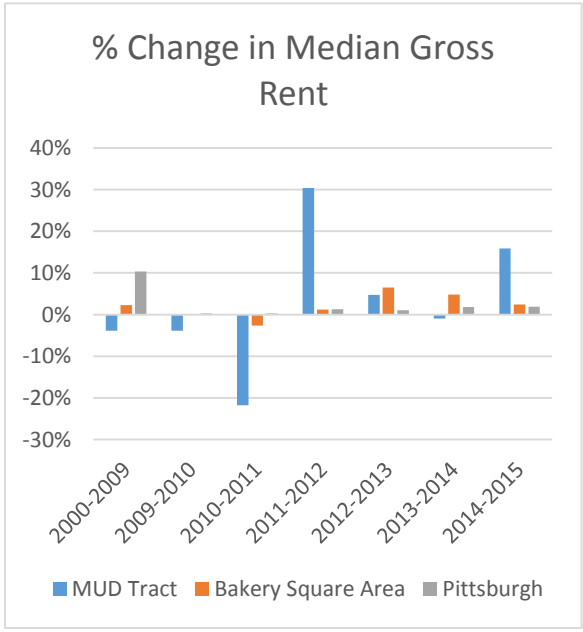
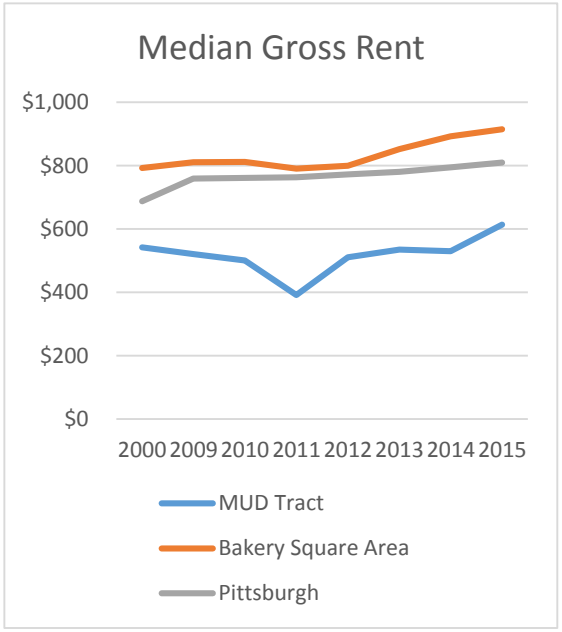
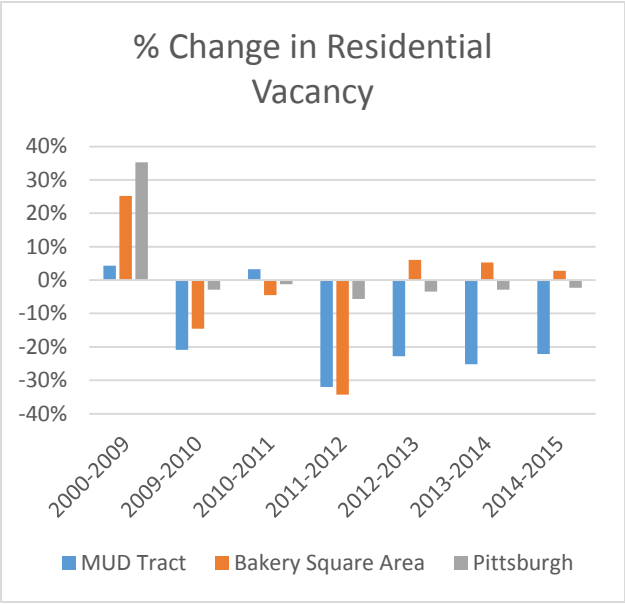
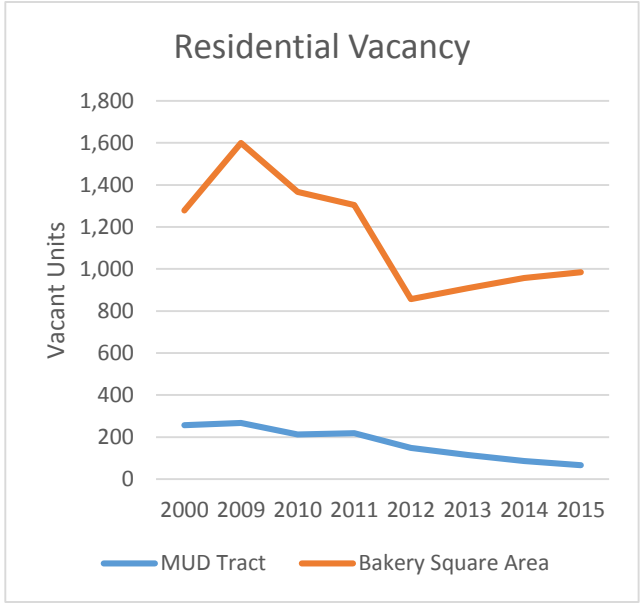
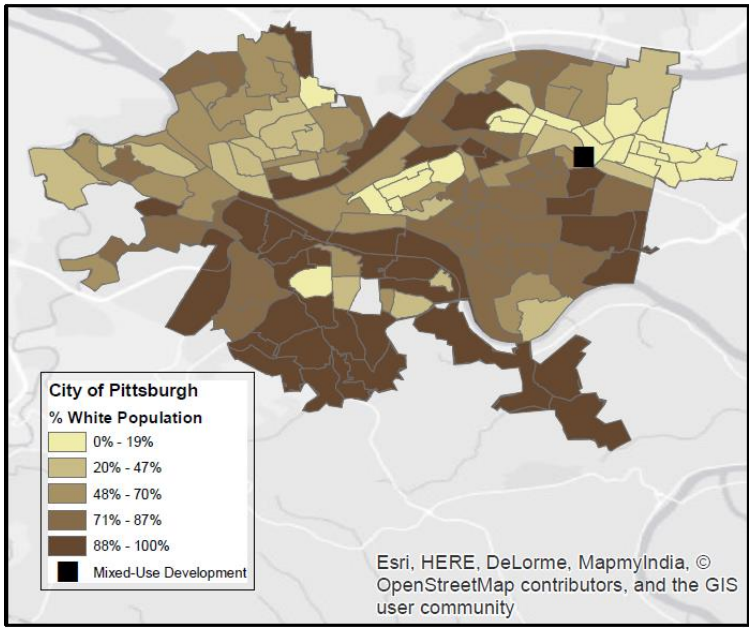

% Change in Median Gross Rent
40%
30%
20%
10%
0%
-10%
-20%
-30%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Bakery Square Area
Pittsburgh


Median Gross Rent
$1,000
$800
$600
$400
$200
$0
2000 2009 2010 2011 2012 2013 2014 2015
MUD Tract
Bakery Square Area
Pittsburgh


% Change in Residential Vacancy
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Bakery Square Area
Pittsburgh


Residential Vacancy
Vacant Units
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
2000 2009 2010 2011 2012 2013 2014 2015
MUD Tract
Bakery Square Area


Residential Vacancy in Pittsburgh
Vacant Units
30,000
25,000
20,000
15,000
10,000
5,000
0
2000 2009 2010 2011 2012 2013 2014 2015


City of Pittsburgh
% White Population
0% - 19%
20% - 47%
48% - 70%
71% - 87%
88% - 100%
Mixed-Use Development
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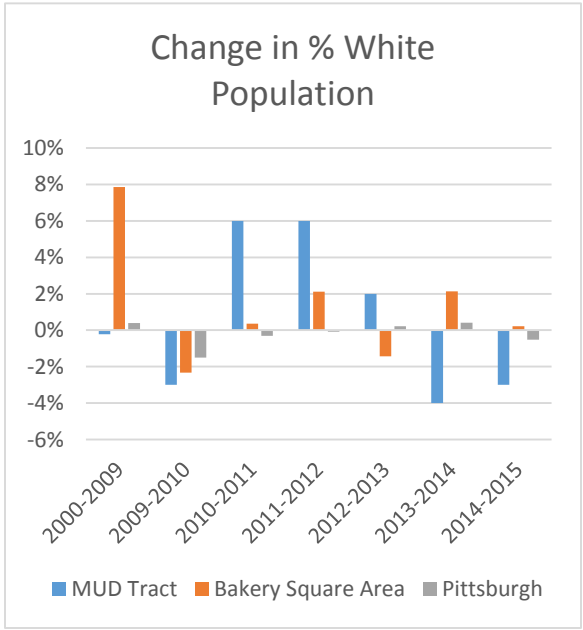
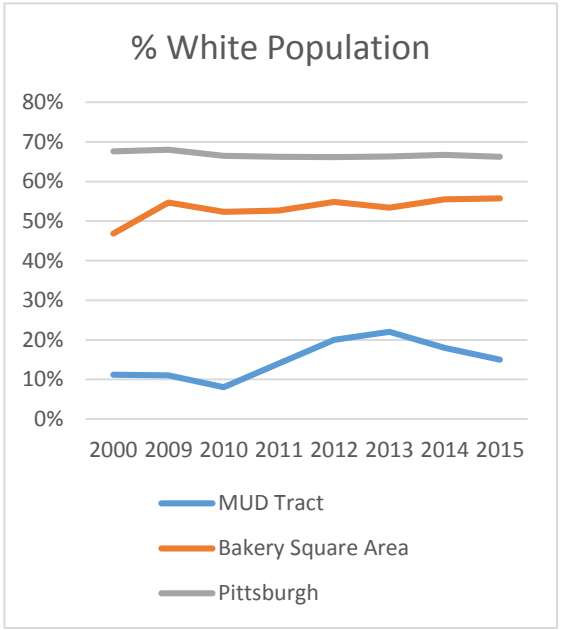

Change in % White Population
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Bakery Square Area
Pittsburgh


% White Population
80%
70%
60%
50%
40%
30%
20%
10%
0%
2000 2009 2010 2011 2012 2013 2014 2015
MUD Tract
Bakery Square Area
Pittsburgh

II. Uptown

Address: 11471 Euclid Ave, Cleveland, OH, 44106
Developer: MRN, Ltd.
Neighborhood: University Circle
Public Finance: NMTC, EB-5
Construction Period: 2010-2014

Neighborhood Context

The Uptown development is located in the heart of the University Circle neighborhood, one of Cleveland and northeast Ohio's most significant employment centers and home to dozens of prominent cultural, educational, and healthcare institutions. These institutions include Case Western Reserve University, the Cleveland Institute of Music, the Cleveland Institute of Art, University Hospitals, and the Cleveland Clinic, which primarily serve and employ the region's middle- and upper-class demographic groups. However, University Circle lies with two census tracts that are otherwise considered highly distressed and that host some of the most underserved and disadvantaged communities in Cleveland, like Glennville, Wade Park, and Hough. The neighborhoods around University Circle, broadly called the Uptown area, followed a familiar pattern of white flight and disinvestment beginning in the 1950s. The decline of labor intensive manufacturing jobs – the bedrock of the Cleveland economy – led to even greater deterioration of quality of life in the surrounding area. Most of the neighborhoods around University Circle saw a precipitous decline in population and wealth over the latter half of the 20th century and now suffer from extreme poverty, with significant abandonment, vacancy, and blight. There is limited accessible employment nearby. As of 2012, the median income for the seven residential neighborhoods immediately surrounding University Circle was $18,500. Unemployment in these neighborhoods was 25% (Glanville, 2013).

In the early 2000s, the anchor institutions located in University Circle formally declared that their interests were aligned with the fate of their surrounding neighborhoods. With more than $3 billion in capital

investments planned for the Uptown district, the organizations saw the anchor-based neighborhood redevelopment examples set by the University of Pennsylvania in Philadelphia and The Ohio State University in Columbus and launched a similar endeavor called the Greater University Circle Initiative (GUCI) in partnership with the Cleveland Foundation. The GUCI focused on physical redevelopment of the neighborhood, along with strengthening partnerships between University Circle institutions and efforts at economic inclusion. The latter included strategies for local hiring and sourcing. A program administered by the nonprofit University Circle, Inc. (UCI) provided homeownership incentives for University Circle employees to purchase properties and move into the surrounding neighborhoods (Glanville, 2013). UCI is an influential community development organization primarily funded by the neighborhood businesses and institutions that promotes economic development, real estate development and provides services to the University Circle area (University Circle Inc., 2017).

At the same time, Uptown was part of a broader city plan to reconnect the neighborhood with the rest of the city. City elites envisioned Uptown as a new Downtown for Cleveland (Schneider, 2011). In October 2008, the City of Cleveland completed a $197 million renovation of Euclid Avenue. The route is one of the most vital transportation arteries in the city, traversing from Downtown, through Midtown and University Circle, and into the eastern suburbs. Improvements included "The HealthLine," a bus rapid transit system developed in partnership with the Greater Cleveland Regional Transit Authority (RTA) that opened in 2008. As of 2009, more than $3.3 billion worth of projects were planned, in progress, or recently finished along the five miles of redeveloped road, much of which were investments by the city's local hospital systems (Jarboe, 2009). Other important transportation improvements for Uptown included a renovation of a nearby RTA subway station and the creation of a new University Circle RTA station, which established new entryways into the neighborhood. While the City of Cleveland, RTA, and University Circle institutions contributed to these improvements, they were mostly funded through grants from the Ohio Department of Transportation and the US Department of Transportation's Transportation Investment Generating Economic Recovery (TIGER) grants (Werner, Farbstein, Lubenau, & Shipley, 2016).

Demographic Trends

In 2010, the census tracts within a half mile of Uptown were in many ways an average of Cleveland generally. Figures 5.1-5.23 show that the city was highly segregated, with the western half of Cleveland being majority white, while almost all the city's census tracts had populations over 88% minority. Overall, the population of Cleveland is 40% white, compared to 38% in the Uptown-adjacent tracts. The Uptown

area has low population density, but this is consistent with the city of Cleveland generally and the area tracts are mostly in the middle quintile for population density. Median incomes for Cleveland and the Uptown area are both low, but in 2010 the Uptown area had a median income of $21,179, more than $8,500 lower than that of the city. This gap closed to $3,213 by 2015, but this is a result of both gradually rising incomes in the study area and gradually declining incomes for the city overall. Median rents in the study area have been roughly comparable from 2010 to 2015. The only demographic in which the Uptown area significantly and consistently outperformed the city was in its population of college graduates. In 2010, 26% of Uptown area residents had at least a bachelor's degree compared to 13% overall. Both the city and the area increased their college graduate population by 3% from 2010 to 2015.

The Project

Figure 4. Uptown and Surrounding Improvements

Uptown is a $71 million new construction mixed-use development in University Circle, taking its name from the surrounding district. The LEED Silver-rated development was built in two phases, and Uptown was conceived specifically as part of the GUCI to create a more vibrant neighborhood and encourage street-level retail and pedestrian traffic. Phase I of Uptown broke ground in August 2010 and was opened in October 2012, while Phase II began construction in 2012 and opened in 2014 (Werner et al., 2016).

Phase I of the Uptown development had a total cost of $45 million and consisted of two buildings straddling Euclid Avenue, forming a gateway into University Circle from the east. Phase I has 114 apartment units and 56,000 sf of retail. The buildings are roughly equal in size: the building on the north

side has 84,000 sf, with 44 apartments and 36,480 sf of street level retail. Tenants include a local independent supermarket and a Barnes & Noble that serves as Case Western's university book store. The south-side building has another 70 apartments with 21,000 sf of street-facing retail and restaurants. 20% of the apartments in Phase I are set aside to be affordable at up to 80% AMI (Enterprise Community Partners, 2017).

Phase II of Uptown is smaller, costing $26 million and consisting of a single 8-story building with residential and retail space. Phase II includes 50 dorms leased by the Cleveland Institute of Art, as well as 40 apartments. The building also includes 16,000 sf of street-level retail space and a bowling alley (Rafter, 2013).

Financing the Project

Table 3. Capital Stack for Uptown Phase I, 2010-2012

Source	**Amount**	**Percent**
Subordinate Debt	$13,250,000	27%
NMTC	$16,250,000	33%
Senior Debt	$17,400,000	35%
Equity	$2,300,000	5%
Total	*$49,200,000*	*100%*
Other subsidy		
Forgivable portion of debt	$8,250,000	

Table 4. Capital Stack for Uptown Phase II, 2012-2014

Source	**Amount**	**Percent**
Subordinate Debt	$7,000,000	27%
Grant	$1,000,000	4%
Equity	$4,000,000	15%
NMTC	$9,000,000	35%
EB-5	$5,000,000	19%
Total	*$26,000,000*	*100%*
Other subsidy		
Forgivable portion of debt	$2,000,000	

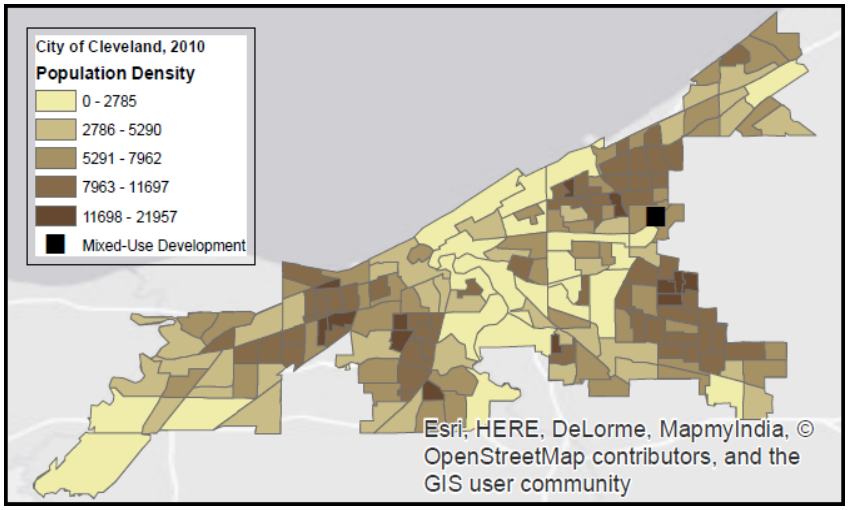
The development of Uptown was significantly constrained by the tightening of capital markets at the outset of the Great Recession, and it initially struggled due to the economic downturn. Groundbreaking for Phase I was first scheduled for 2009, but was delayed when it took more than 2 years to put together the initial financing. The Cleveland-based development company MRN Ltd. won the bid for the project in 2007 as a joint venture with Chicago-based Mesirow Financial, but the latter withdrew when the economy weakened in 2008. Residential developer Zaremba Homes stepped in as a second development partner, but the arrangement fell apart when banks stopped lending to condo projects and established requirements like set pre-leasing percentages. The final project was downsized considerably from its initial concept, which had a budget of roughly $150 million, more than twice the number of residential units, including condos, and additional retail (Berusch Development Partners, 2014).

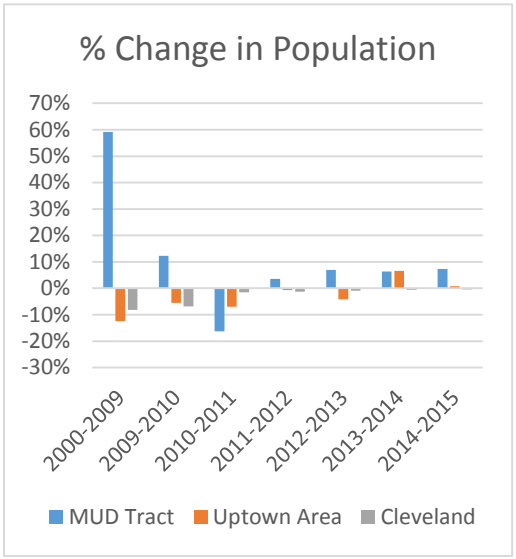
The Cleveland Foundation and University Circle anchor institutions were highly interested in the success of Uptown, and as a result, the financing for Uptown drew heavily on philanthropic, government, and private sources. Public and philanthropic dollars were the first invested in the project. In 2007, the City of Cleveland provided a $5 million dollar loan out of its Vacant Properties Initiative, 45% of which was forgivable if the project met goals related to local hiring of contractors. Contemporarily, the Cleveland Foundation and the Gund Foundation made program-related investments totaling $6 million in the Cleveland-based CDFI Village Capital Corporation, which were passed through to the development as low-interest loans. The Village Capital Corporation also independently provided another low-interest loan of $750,000. The foundation and municipal investments made Phase I eligible to receive NMTCs, which were an important source of equity for the project. Enterprise Community Partners provided $10 million of allocation, while local CDE Cleveland Development Advisors provided $6.25 million in allocation. Both allocations were purchased by the Key Community Development Corporation, a subsidiary of Key Bank (Cleveland Development Advisors, 2011). A final $1.5 million investment of subordinate debt was provided by Cleveland Development Advisors. Due to the structure of the NMTC program, Uptown was required to carry its loans for seven years, but in 2017 the investments from the Cleveland Foundation, the Gund Foundation, and the City of Cleveland convert to forgivable loans – essentially serving as a grant to the development. Of Phase I's total budget of $45 million, only $17.4 million consisted of conventional senior debt, which was invested by the Ohio-headquartered Key Bank and First Merit Bank. MRN itself invested comparatively little equity in the project, amounting to roughly $2.3 million (Werner et al., 2016).

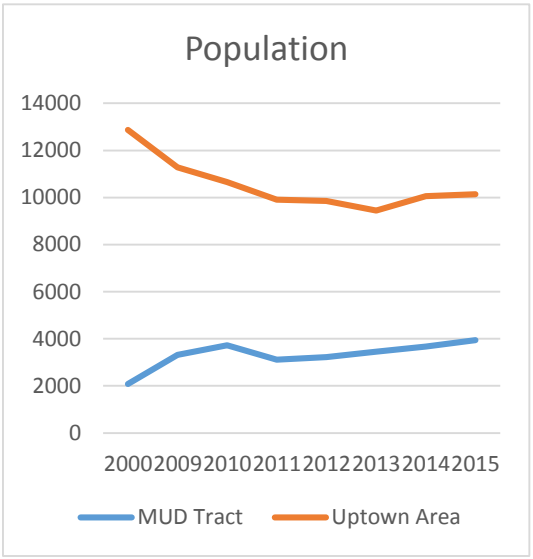
Phase II of Uptown required fewer capital sources, but continued to rely on non-traditional financing. The Cleveland Foundation made a second forgivable loan of $2 million to the project via the Village Capital Corporation (Foundation, 2017), and Cleveland Development Advisors made a low-interest loan of $5 million (Advisors, 2015). The Cleveland Institute of Art provided $1 million to fund construction of its dorms (Jarboe, 2012). With $4 million of equity invested by MRN, the second phase was eligible for more NMTCs. This time Key CDC provided a $9 million allocation to the project, which was purchased by another Ohio financial institution, Huntington National Bank (Rafter, 2013). The final capital source for Phase II was EB-5 investment coordinated by a local Regional Center, the Cleveland International Fund. 10 EB-5 investors each provided $500,000, amounting to $5 million of low-cost debt (Cleveland International Fund, 2015).

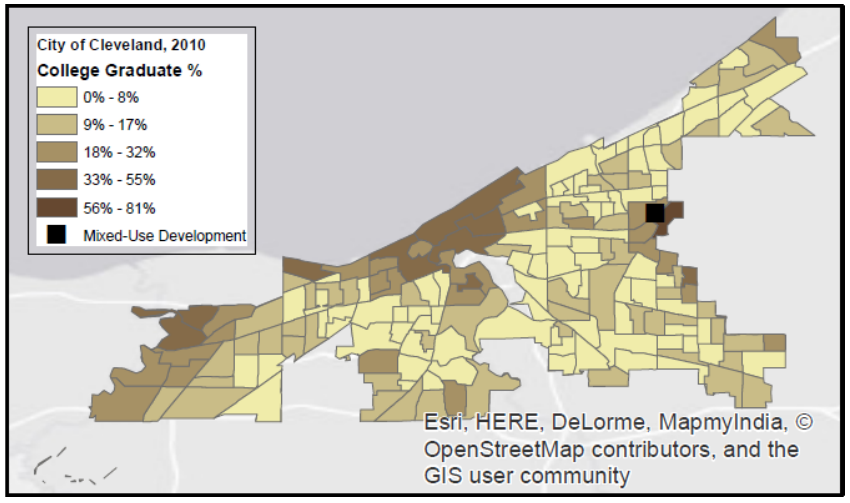
Several strategies were used to make conventional financial institutions comfortable with lending to the project. To make the commercial space financeable, CWRU master-leased two thirds of the storefront retail space in Phase I, which became the B&N and the local grocery store. In essence, this backstopped the lease payments and supported financing by transferring the risk to CWRU and guaranteeing revenue for MRN (Macht, 2013). Additionally, MRN bought the land for the project directly from CWRU and UCI, which functioned as a land-banking arrangement. As a result, MRN was able to keep its development costs down by purchasing only what they needed for each phase of the project (Jarboe, 2010).

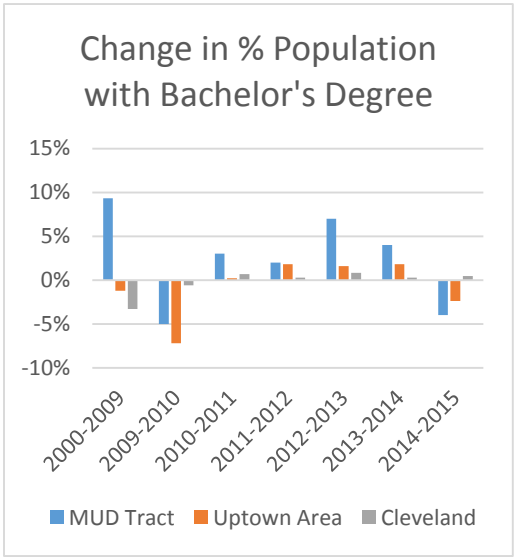
Figure 5.1 - 5.23. Cleveland demographic profile (2010) and trends (2000-2015).

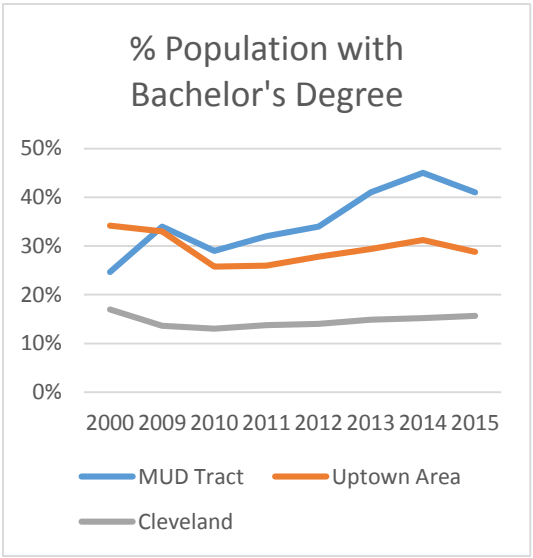


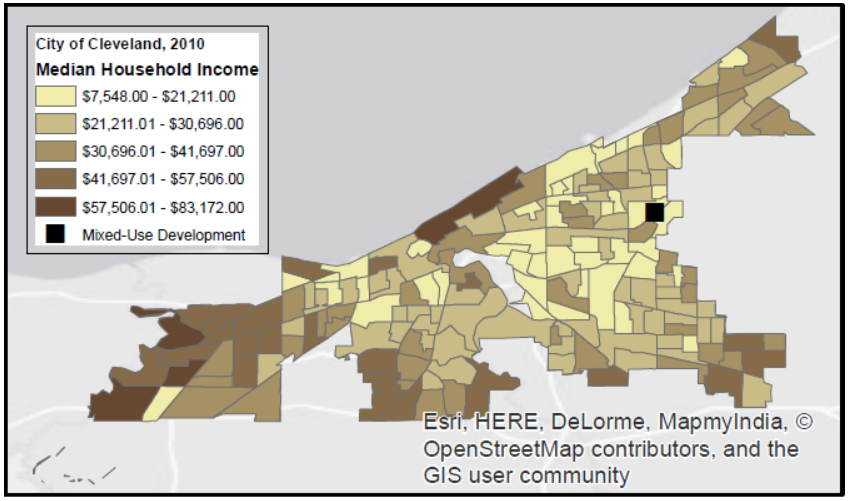











City of Cleveland, 2010
Median Household Income
$7,548.00 - $21,211.00
$21,211.01 - $30,696.00
$30,696.01 - $41,697.00
$41,697.01 - $57,506.00
$57,506.01 - $83,172.00
Mixed-Use Development
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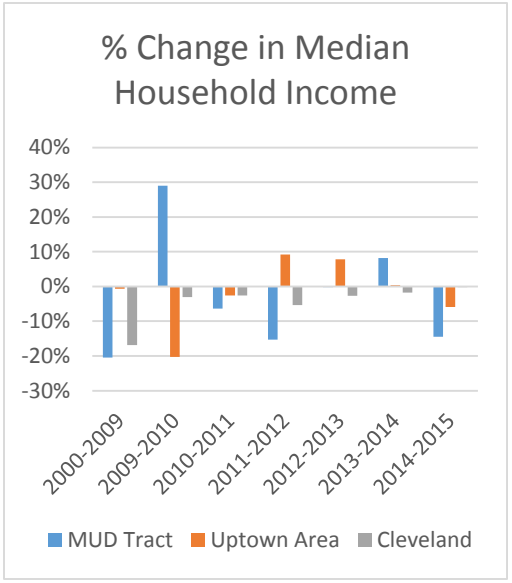
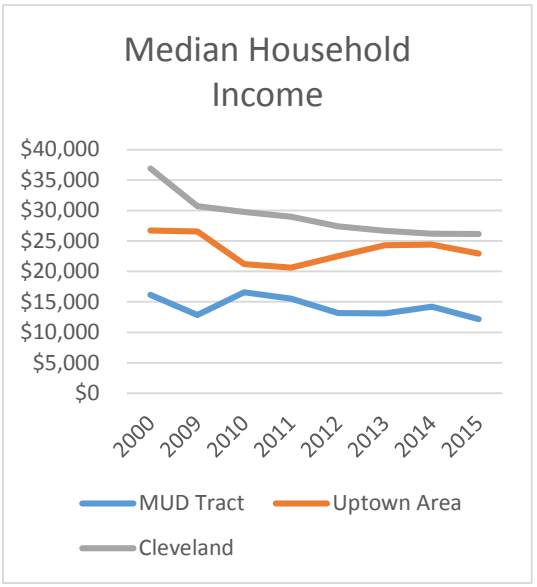
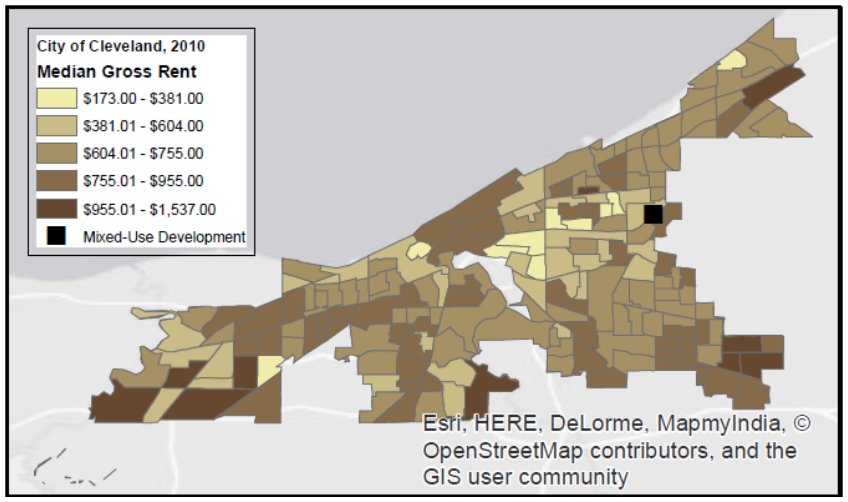

% Change in Median Household Income
40%
30%
20%
10%
0%
-10%
-20%
-30%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Uptown Area
Cleveland


Median Household Income
$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
2000
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Uptown Area
Cleveland


City of Cleveland, 2010
Median Gross Rent
$173.00 - $381.00
$381.01 - $604.00
$604.01 - $755.00
$755.01 - $955.00
$955.01 - $1,537.00
Mixed-Use Development
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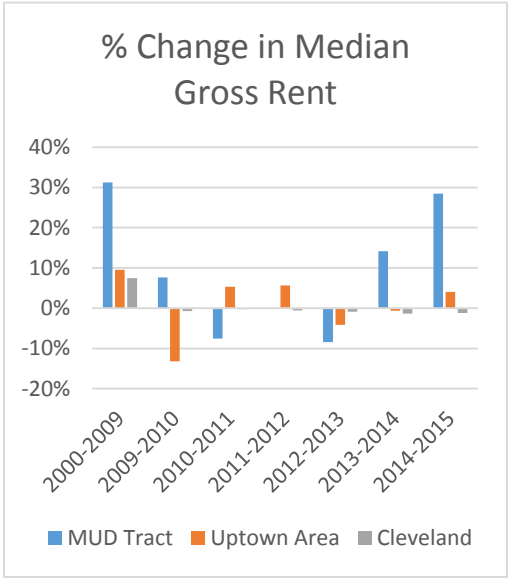
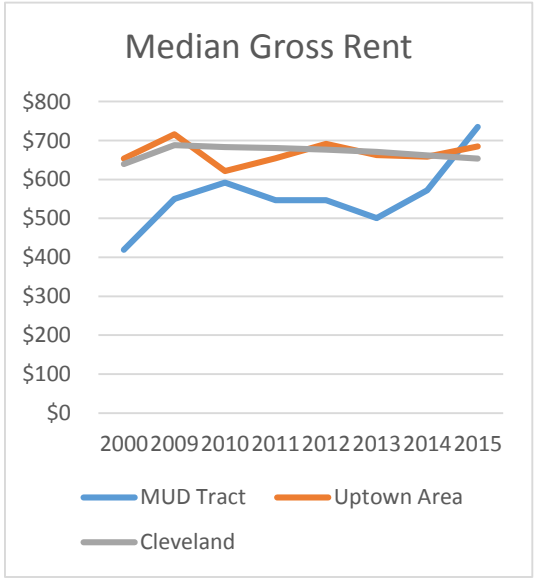
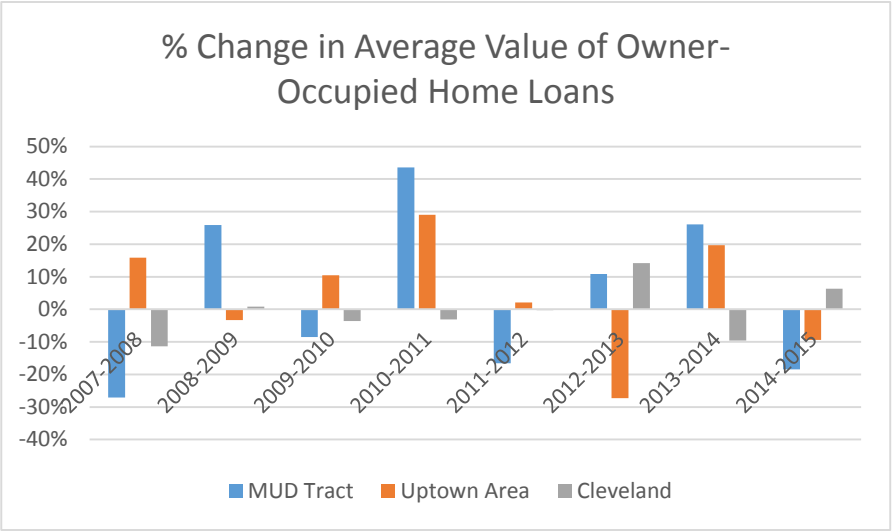
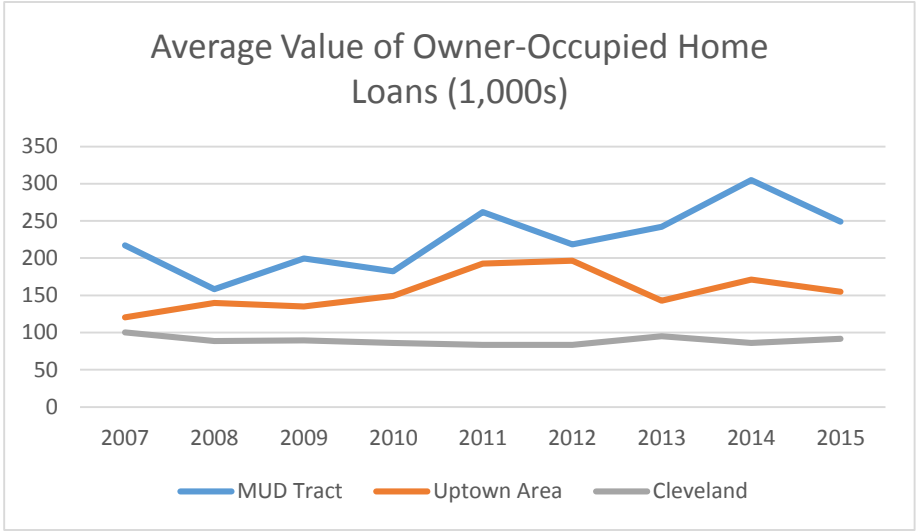
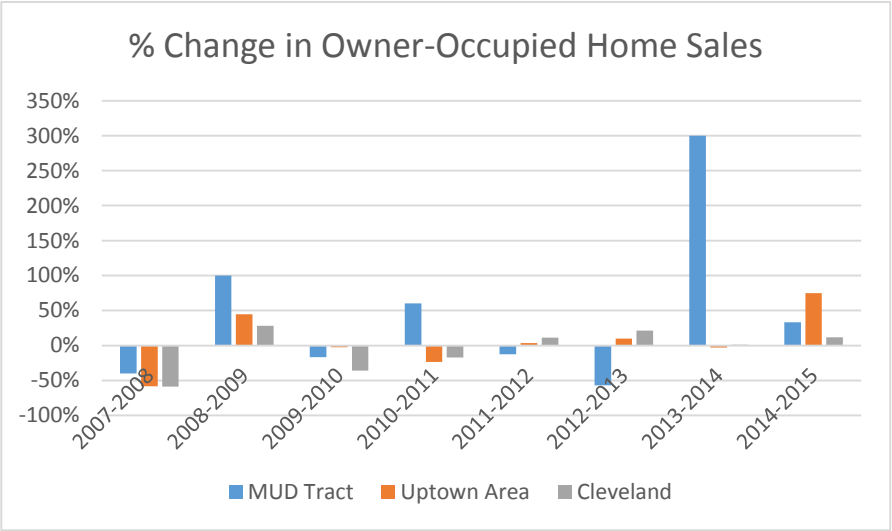
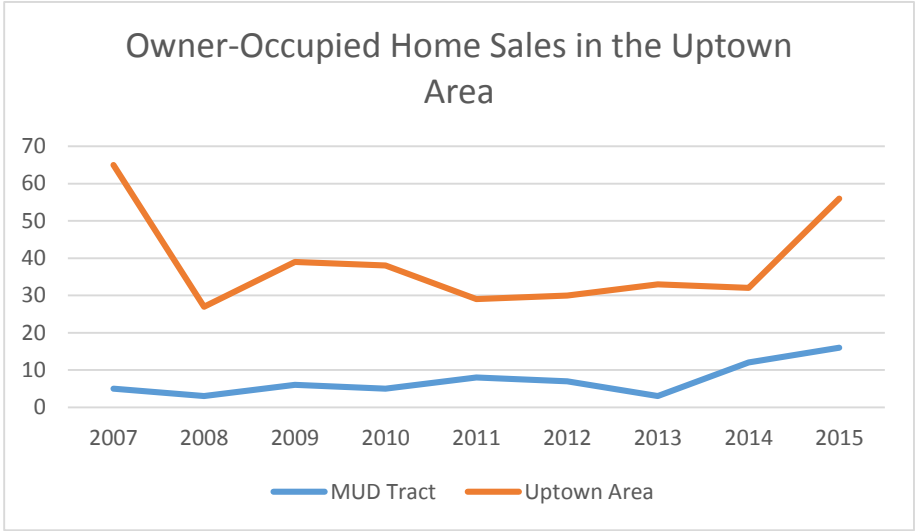

% Change in Median Gross Rent
40%
30%
20%
10%
0%
-10%
-20%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Uptown Area
Cleveland

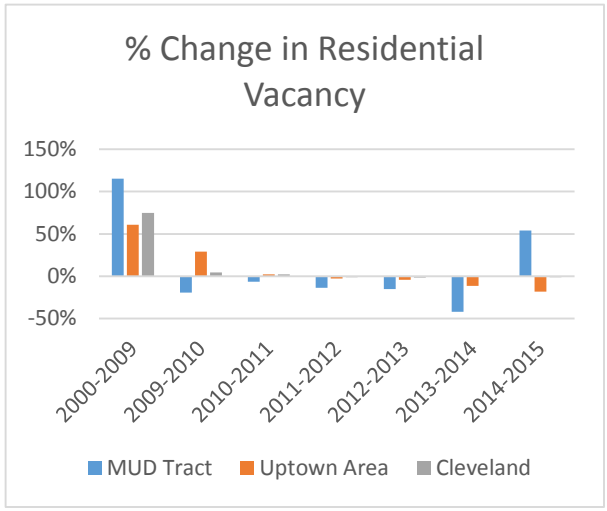

Median Gross Rent
$800
$700
$600
$500
$400
$300
$200
$100
$0
2000
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Uptown Area
Cleveland

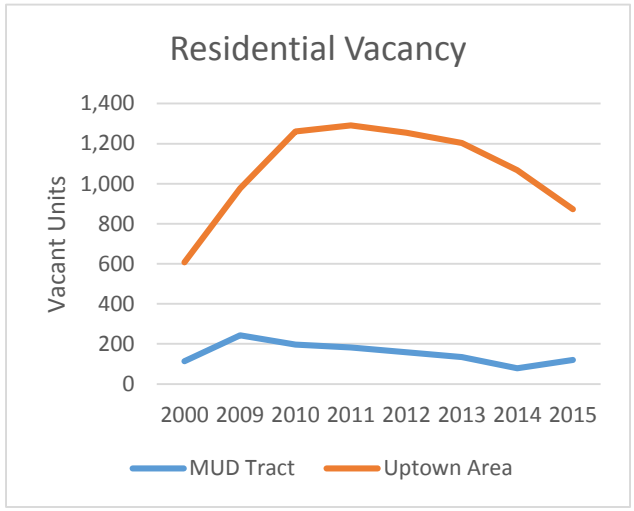

% Change in Average Value of Owner-Occupied Home Loans
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Uptown Area
Cleveland

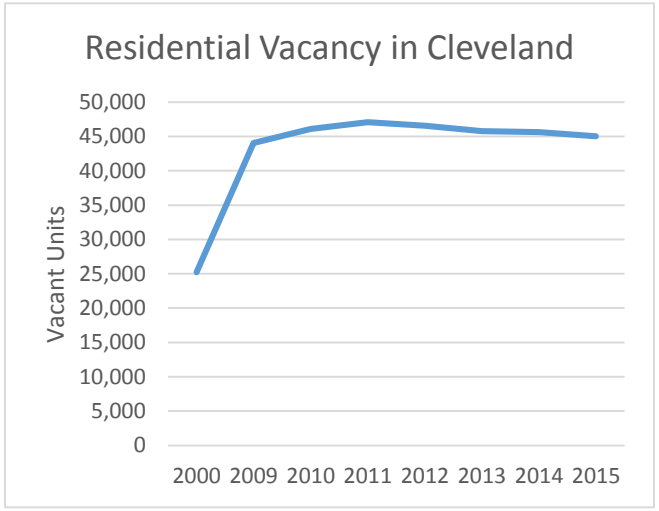

Average Value of Owner-Occupied Home Loans (1,000s)
350
300
250
200
150
100
50
0
2007
2008
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Uptown Area
Cleveland

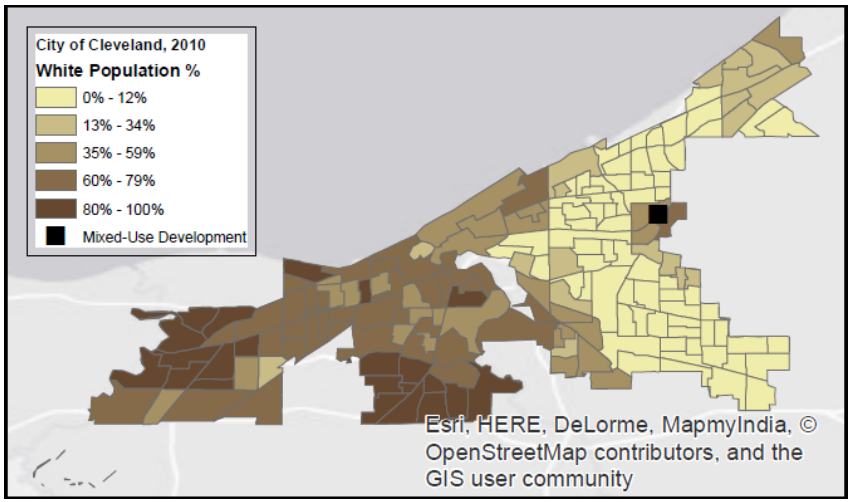

% Change in Owner-Occupied Home Sales
350%
300%
250%
200%
150%
100%
50%
0%
-50%
-100%
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Uptown Area
Cleveland

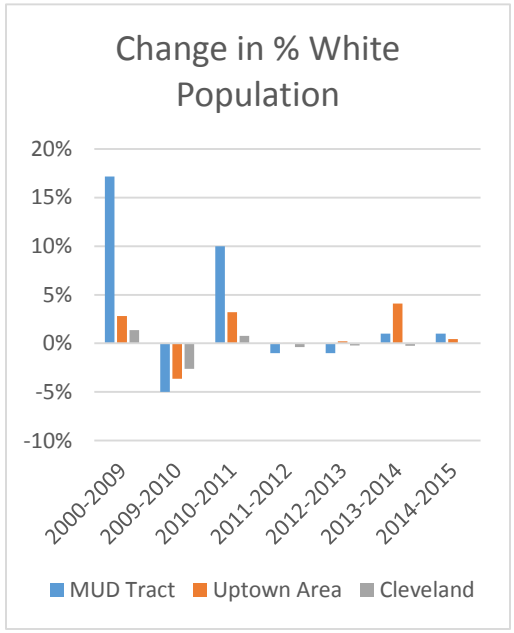

Owner-Occupied Home Sales in the Uptown Area
70
60
50
40
30
20
10
0
2007
2008
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Uptown Area

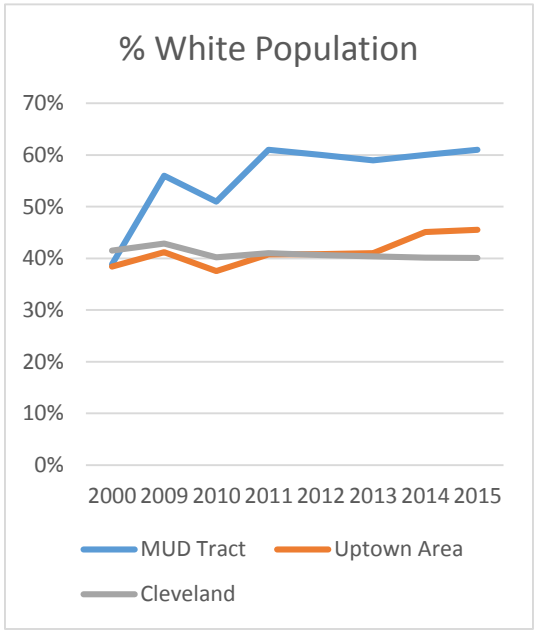

% Change in Residential Vacancy
150%
100%
50%
0%
-50%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Uptown Area
Cleveland


Residential Vacancy
Vacant Units
1,400
1,200
1,000
800
600
400
200
0
2000 2009 2010 2011 2012 2013 2014 2015
MUD Tract
Uptown Area


Residential Vacancy in Cleveland
Vacant Units
50,000
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
2000 2009 2010 2011 2012 2013 2014 2015


City of Cleveland, 2010
White Population %
0% - 12%
13% - 34%
35% - 59%
60% - 79%
80% - 100%
Mixed-Use Development
Esri, HERE, DeLorme, MapmyIndia, © OpenStreetMap contributors, and the GIS user community


Change in % White Population
20%
15%
10%
5%
0%
-5%
-10%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Uptown Area
Cleveland


% White Population
70%
60%
50%
40%
30%
20%
10%
0%
2000 2009 2010 2011 2012 2013 2014 2015
MUD Tract
Uptown Area
Cleveland

III. Ponce City Market

Address: 675 Ponce De Leon Ave NE, Atlanta, GA 30308

Developer: Jamestown Properties

Neighborhood: Old 4th Ward

Public Finance: HTCs, Opportunity Zone, Atlanta Beltline Affordable Housing Trust Fund Grant

Construction Period: 2011-2015

Neighborhood Context

Ponce City Market is a 2.1 million-sf mixed-use development in the northeast corner of the Old Fourth Ward (OFW), sited roughly on the borders of three other eastside neighborhoods of Poncey-Highland, Virginia Highland, and Midtown. The OFW is a historically African American neighborhood just to the east of Atlanta's Downtown, and is best known as the birthplace of Civil Rights leader Martin Luther King, Jr. The neighborhood is a casualty of mid-century urban renewal policies. The OFW was once one of the densest residential neighborhoods in Atlanta, with a population of over 22,000 in 1960. Between 1960 and 1980, the population dropped dramatically to just over 6,000, largely due to slum clearance for the construction of highways and other civic projects (Old Fourth Ward Neighborhood Association, 2007). OFW included one of the city's most impoverished districts at the time, called Buttermilk Bottom, which was razed to make way for the Boisfeuillet Jones Civic Center in 1967. Hundreds of homes were demolished in the 1960s to make way for a planned tollway through the neighborhood from downtown to the eastern suburbs. The completed highway was never accomplished, but the sections already cleared were turned into Freedom Parkway, a highway spur which cut through the middle of the OFW (Kempner, 2016).

By the 1970s, most of the buildings along Boulevard, the neighborhood's primary north-south transportation artery, were vacant and boarded up. This vacancy in the OFW coexisted with a significant shortage of affordable housing, and over time the Boulevard corridor accumulated the largest

concentration of Section 8 housing in the Southeast. OFW came to represent Atlanta's highest concentration of poverty, and was one of the city's most neglected neighborhoods. Through the 1980s and 1990s, it was well known as a center of drug trade and gang activity.

Around the turn of the century, OFW began a period of uneven revitalization. Poverty and blight along Boulevard remained a persistent problem even as other parts of the neighborhood were redeveloped. Glen Iris Drive saw loft buildings and upscale restaurants, while Edgewood Avenue was becoming a nightlife destination. National retailers like Whole Foods and Urban Outfitters located along Ponce De Leon Avenue. The OFW and its surrounding, predominantly residential Eastside neighborhoods have been the site of some of the most dramatic redevelopment in the city. These neighborhoods have seen some of the largest increases in property values over the last several years, and OFW is lagging its neighbors: areas like Inman Park, Virginia Highland, and Midtown began a period of gentrification and revitalization from the 1980s on. The pattern is widespread, as a confluence of the rising cost of living, reverse white flight, and displacement has happened in Atlanta at nearly twice the rate of other large American cities (Maciag, 2015). Still, as recently as 2009 locals would refuse to stop and get out of their cars when driving down Boulevard (Henry, 2009).

Recent development in the OFW has been fueled by large-scale public investments in parks and greenways. Historic Fourth Ward Park is a significant community amenity across from Ponce City Market that was constructed on formerly vacant land and completed in 2011. The park serves a dual purpose of providing green space and functioning as a key storm water management facility for the area. The Old Fourth Ward is a drainage basin for a 985-acre territory encompassing the northeast quadrant of Atlanta, and the new park mitigates flooding problems that had previously made many properties un-buildable (Saporta, 2010b). Over 1,000 apartment units were built around the park in the first three years of its existence (Green, 2013). The OFW is also one of the neighborhoods along the Atlanta Beltline, a city-wide rails-to-trails project. The major redevelopment initiative is conceived as a 22-mile loop trail to connect in-town neighborhoods. The initial phases of the BeltLine have been extraordinarily popular, and properties near the current and proposed segments command significant price premiums (Immergluck, 2009). More than $1 billion has been invested in development around the Beltline since 2005 (Atlanta Beltline Inc., 2016).

Demographic Trends

At the outset of construction in 2011, Ponce City Market was sited in an advantageous location. It was in located one of the densest residential corridors in the city of Atlanta, and at the edge of a territory with median gross rents and percentage of college graduates in the top two quintiles for the city. This territory was also among the whitest in the city. The neighborhoods around Ponce City Market were relatively stable, with market indicators above those of the city generally. Increases in home loan values in the area around have tracked roughly with Atlanta overall, but started higher and have remained $36,000 to $60,000 greater around Ponce City Market.

Figures 7.1 – 7.22 suggest that the study area around Ponce City Market does not reflect the narrative of hyper-gentrification; it is possible the larger geography may be hiding dramatic changes at the scale of a single neighborhood like OFW. However, median household incomes and median gross rents in the area, adjusted for inflation, have tracked with trends citywide and have not increased dramatically. In fact, median household incomes have fallen slightly since 2010, though this may be due to younger or smaller households moving in.

The Project

Figure 6. Atlanta's Sears building in 1966.

Ponce City Market is the newest incarnation of Atlanta's historic Sears, Roebuck & Co. building, which is generally noted as being the largest brick structure in the Southeast. Beginning in 1926, the building served as a regional distribution center and retail store for the department store chain. In 1989, after years of diminished activity, Sears halted its warehouse and distribution operations and sold the building to a company called CB Commercial. After two years of vacancy, the City of Atlanta purchased the building for $12 million to house administrative offices. The City christened its new facility City Hall East, and set aside $10 million to renovate the

building. However, the funds were insufficient to property renovate and it was never fully occupied (Brown, 2011).

In the early 2000s, the City began searching for a buyer to take the property as a means of raising revenue and offloading the building's $600,000 annual operating costs. In 2005, the City had reached an agreement with developer Emory Morsberger to sell City Hall East for $27 million, but political complications and a lien against the City's property delayed the deal for years. A conflict also existed related to responsibility for brownfield cleanup. The property faced a number of challenges, including asbestos, lead paint, and vapor intrusion, as well as miscellaneous tanks and contaminated fill left over from the former Sears service station. The property is also located at the lowest point on Ponce De Leon Avenue, which created environmental remediation concerns as contaminated groundwater migrates onto the property from surrounding former industrial operations. By 2008, a declining economy put the Morsberger redevelopment plans on indefinite hold (Spinrad, 2015).

Jamestown Properties emerged as a potential buyer in 2009, and less than a year later the City was moving forward with preliminary plans to sell the City Hall East for $15.5 million. A condition of the sale was that the project obtain federal historic tax credits (Saporta, 2010a). Jamestown eventually purchased the property in July 2011 for $27 million, paying the $15.5 million in cash up front with the rest as structured payments (Sain, 2011). The developer worked with the city for 18 months before purchasing the property, creating nearly complete schematic designs and pricing models and obtaining the necessary approvals in order to make absolutely sure that it would be able to accomplish its goals for the property prior to completing the transaction (Weible, 2013).

Ponce City Market began construction in 2011, and opened in phases from 2013 to 2015. The mixed-use development includes 259 apartments, 550,000 sf of office space, and a 300,000 sf retail and food hall. The building is LEED Silver-certified and its loft office space has attracted tech-industry tenants that include companies like Mail Chimp, Cox Enterprises, Cardlytics, and Athenahealth. Co-working space operator Industrious is also a major tenant, and the building houses Google's Fiber operations. Retail and restaurant tenants are uniformly up-market (Jamestown Properties, 2017). As of 2017, Ponce City Market was commanding the highest office rents in all of Atlanta (Sams, 2017).

Access to the Beltline is a fundamental element of Ponce City Market, which incorporated the greenway heavily into its design. The building has direct access to the Beltline and includes plazas and other privately-owned public spaces that front the trail. The building has plentiful bike parking and operates a bike valet service free of charge. The Jamestown CEO has stated that "Ponce City Market's direct connection to the Beltine is one of the best amenities" they have to offer their community. Jamestown seeks to make it a symbiotic relationship by donating the first $1 charged for every car parked onsite to further develop the Beltline (Institute, 2016).

Financing the Project

Table 5.Capital Stack for Ponce City Market, 2011-2015

Sources	**Amount**	**Percent**
Federal HTCs	$48,000,000	16%
State HTCs	$300,000	0.1%
Grant	$2,000,000	1%
Senior Debt	$180,000,000	60%
Equity	$70,000,000	23%
Total	$300,300,000	100%
Other Subsidy		
Opportunity Zone	5 years at $3,500 per employee	

With a total budget of roughly $300 million, Ponce City Market was among the largest redevelopment projects in the country at the time. Its financing is also relatively unique. Jamestown, a real estate investment and management company backed primarily by German private equity investors, has not traditionally functioned as a developer. In 2008, the company acquired Atlanta-based Green Street Properties to create a new sustainable development subsidiary (Finkelstein, 2008). As a result, Jamestown was able mostly to self-finance the initial phases of the property while relying on former Green Street staff to manage the development process.

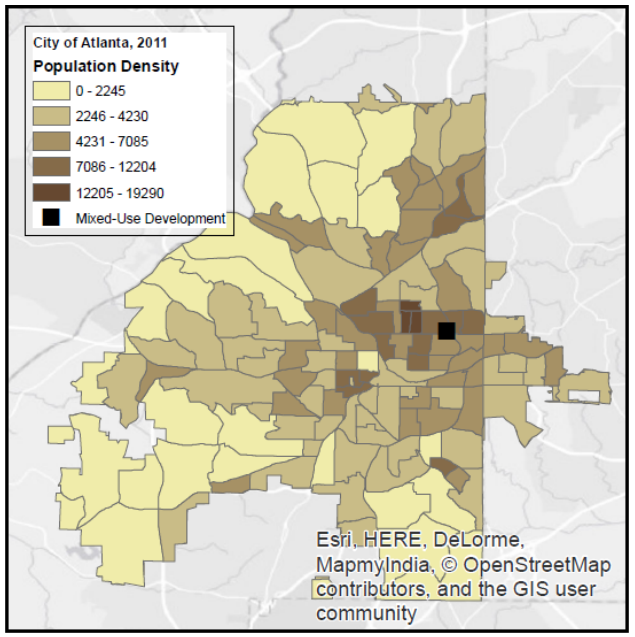
Jamestown utilized comparatively few capital sources for a redevelopment of the magnitude of Ponce City Market, but public investment was still an integral source of funds for project. It received $48 million in federal historic tax credits and $300,000 in state historic tax credits (PlaceEconomics, 2014), which were purchased by the Atlanta-based SunTrust Community Capital in September 2014 (Hudson, 2014). The size of that allocation had grown over the course of the development, beginning with an initial $15 million in federal tax credits in 2011 ("Ponce Markets Tax Credits," 2011). The project also received a $2 million grant from the Beltline Affordable Housing Trust Fund as an incentive to set aside 52 apartment units that are designated as affordable at 80% of AMI. Additionally, Jamestown successfully lobbied to have the 6.5 acre development designated by the Georgia Department of Community Affairs as an Opportunity Zone. While not part of the development's capital stack, the designation provides a five-year tax break for its

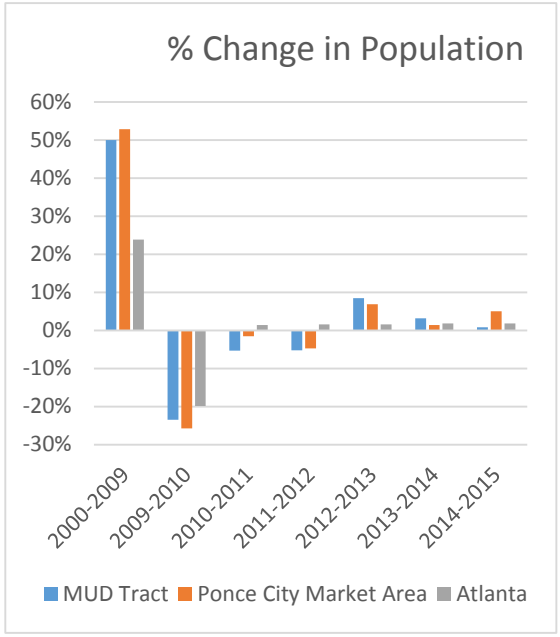
tenants depending on how many employees they hire, which attracts tenants and strengthens their rent role.

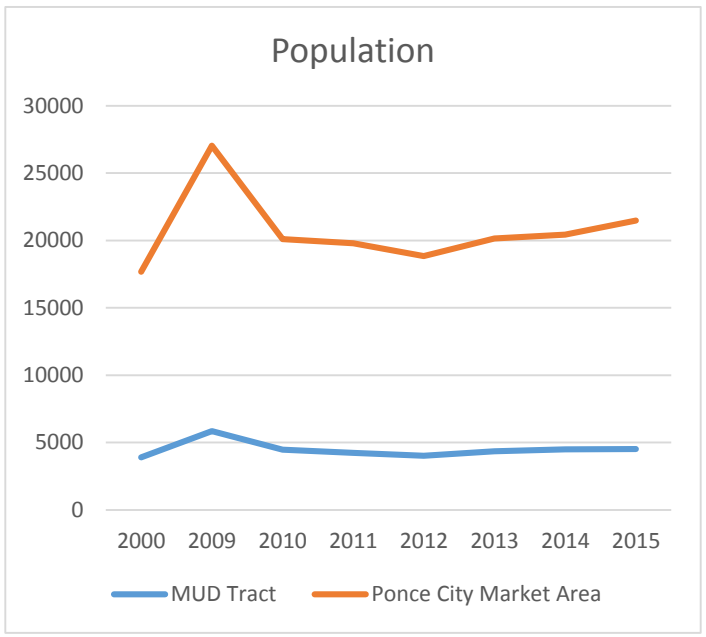
Private money formed the bulk of the project's financing. In April 2014, Jamestown obtained a construction loan of $180 million from a consortium of banks that included PNC, SunTrust, and JP Morgan. At the time, this was the largest construction loan for a project in Atlanta since the beginning of the Great Recession (Editorial Board, 2014). Jamestown invested remaining $70 million as equity in the project (PlaceEconomics, 2014).

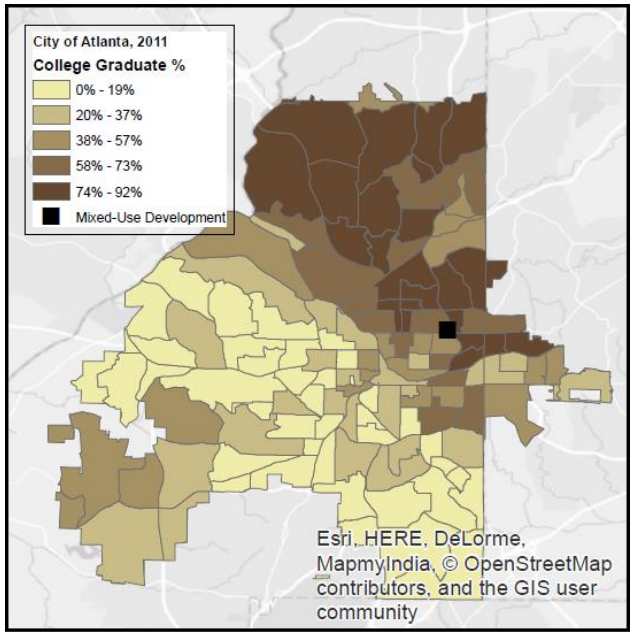
It is important to note, however, that PCM would not have achieved the same success without Old Fourth Ward Park and the BeltLine, amenities which were the recipients of significant public investment. The sale of City Hall East to Jamestown was contingent upon the creation of OFW Park due to persistent flooding issues in the building's basement. The park's lake serves a functional flood detention basin during storms and increases sewer capacity, alleviating sewage overflow problems that had plagued the surrounding neighborhood. It was built with $50.6 million of tax increment financing from the BeltLine TAD (Saporta, 2015). Likewise, the Eastside Beltline trail itself relied on an $850,000 EPA loan to finance environmental remediation activities (Atlanta Beltline Inc., 2013) and was constructed with both charitable contributions and $5.5 million of TIF from the Beltline TAD (Atlanta Beltline Inc., 2012). The project also received a $4 million grant from the Atlanta Regional Commission to improve the streetscape around Ponce City Market and build additional connections from the property to the BeltLine (Atlanta Beltline Inc., 2013).

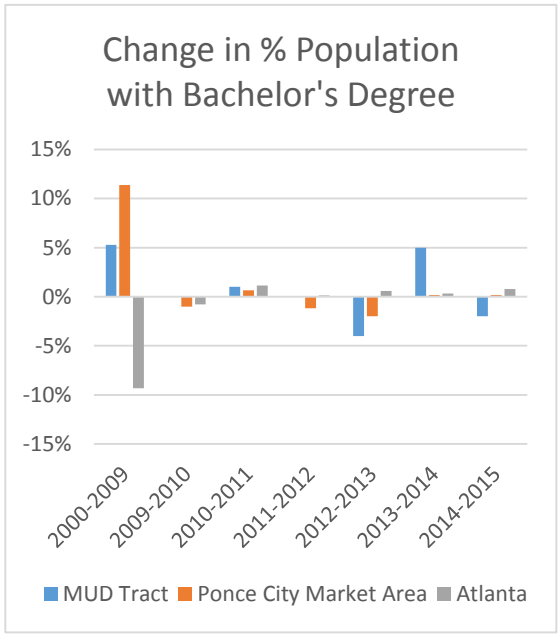
Figures 7.1 - 7.22. Atlanta demographic profile (2011) and trends (2000-2015).

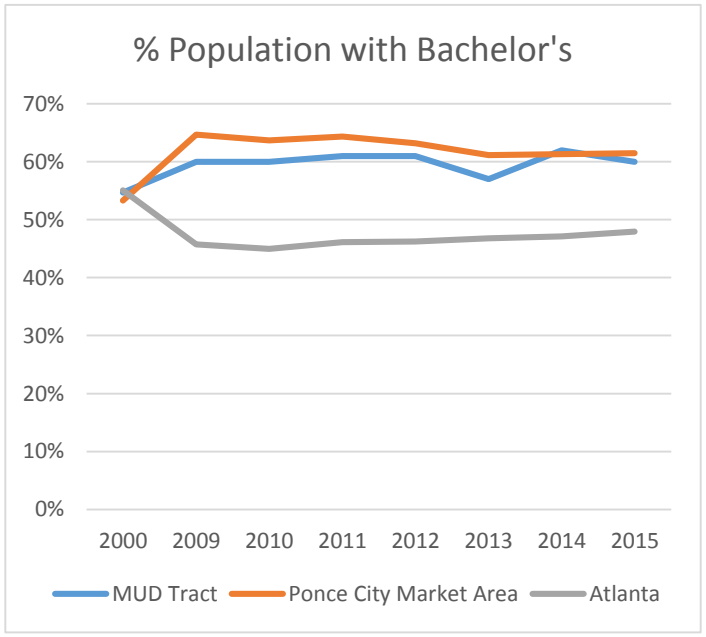


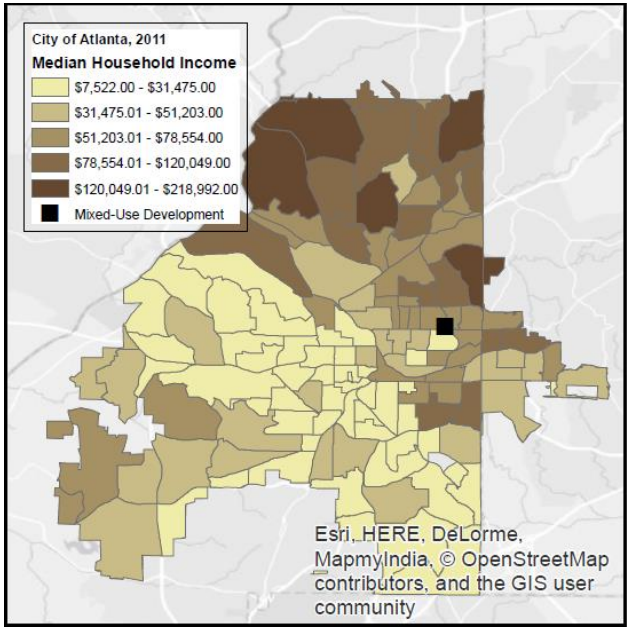











City of Atlanta, 2011
Median Household Income
$7,522.00 - $31,475.00
$31,475.01 - $51,203.00
$51,203.01 - $78,554.00
$78,554.01 - $120,049.00
$120,049.01 - $218,992.00
Mixed-Use Development
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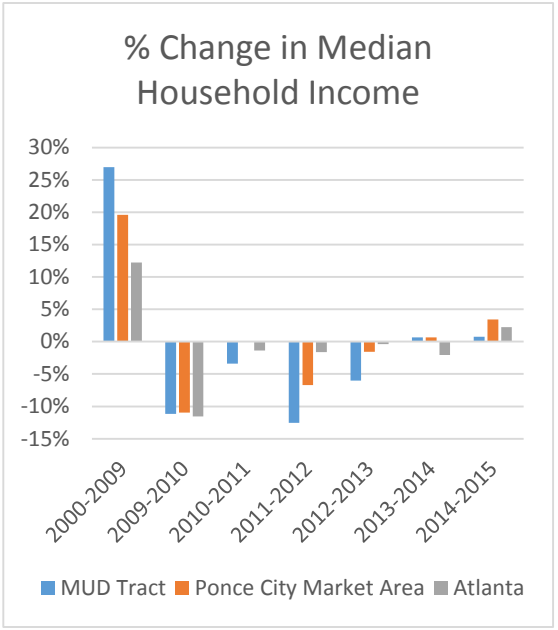
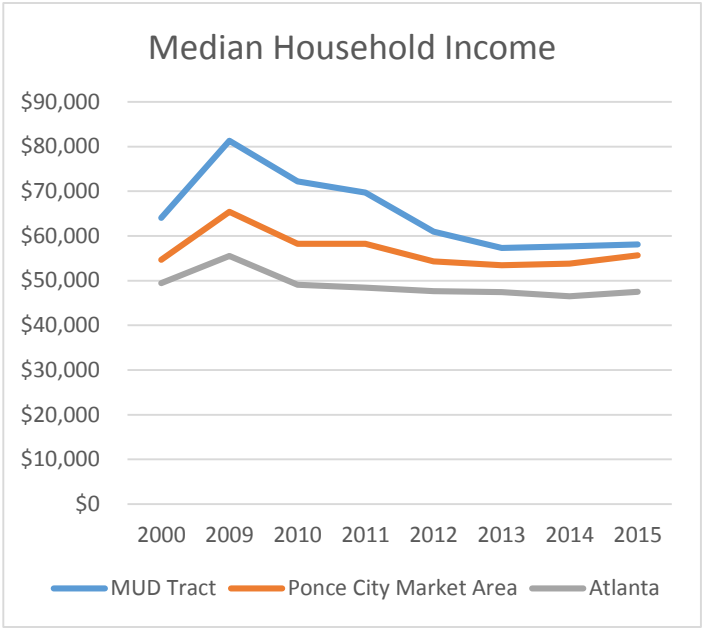
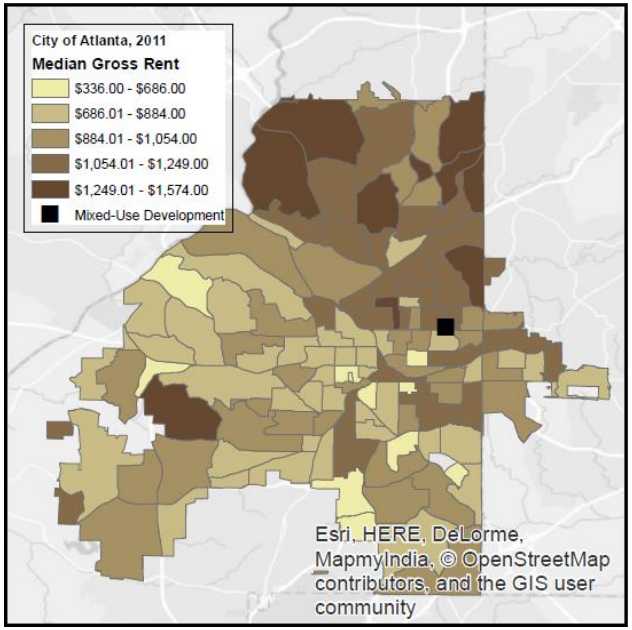

% Change in Median Household Income
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Ponce City Market Area
Atlanta


Median Household Income
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
2000
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Ponce City Market Area
Atlanta


City of Atlanta, 2011
Median Gross Rent
$336.00 - $686.00
$686.01 - $884.00
$884.01 - $1,054.00
$1,054.01 - $1,249.00
$1,249.01 - $1,574.00
Mixed-Use Development
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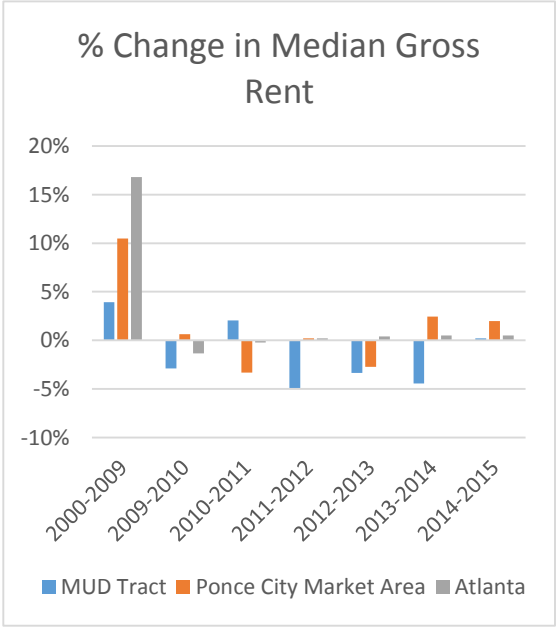
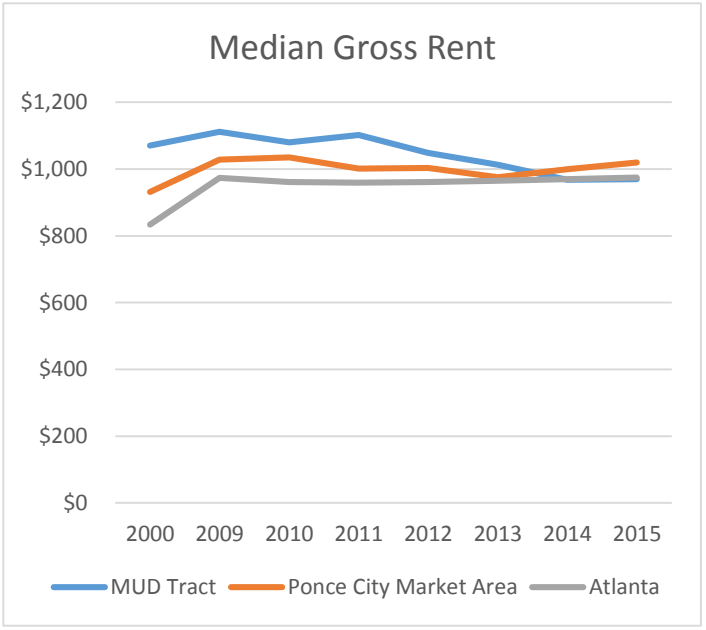
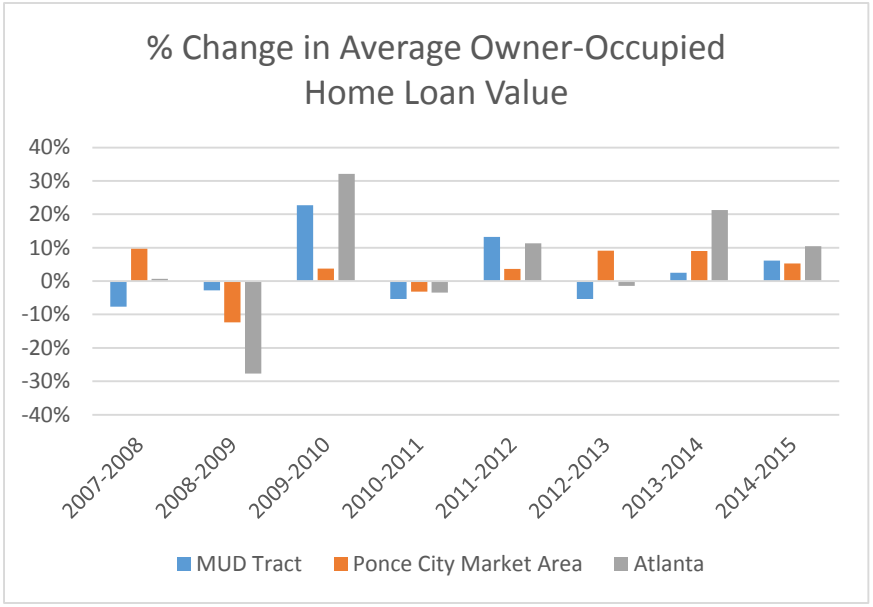
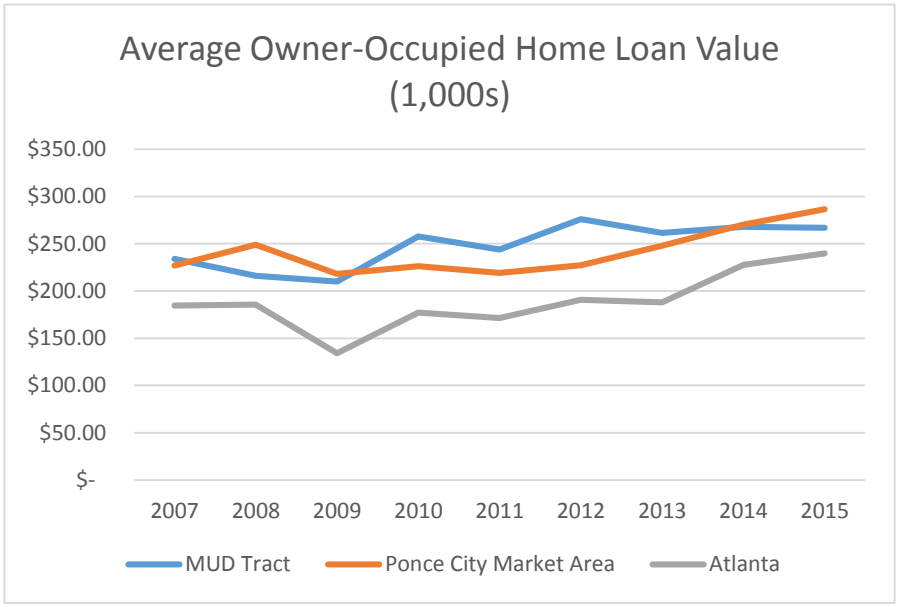
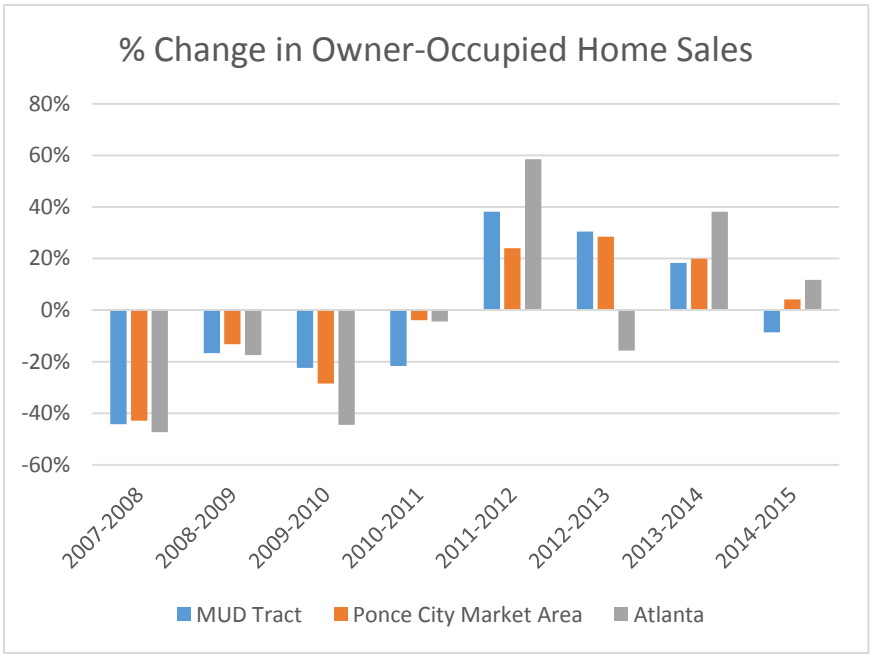
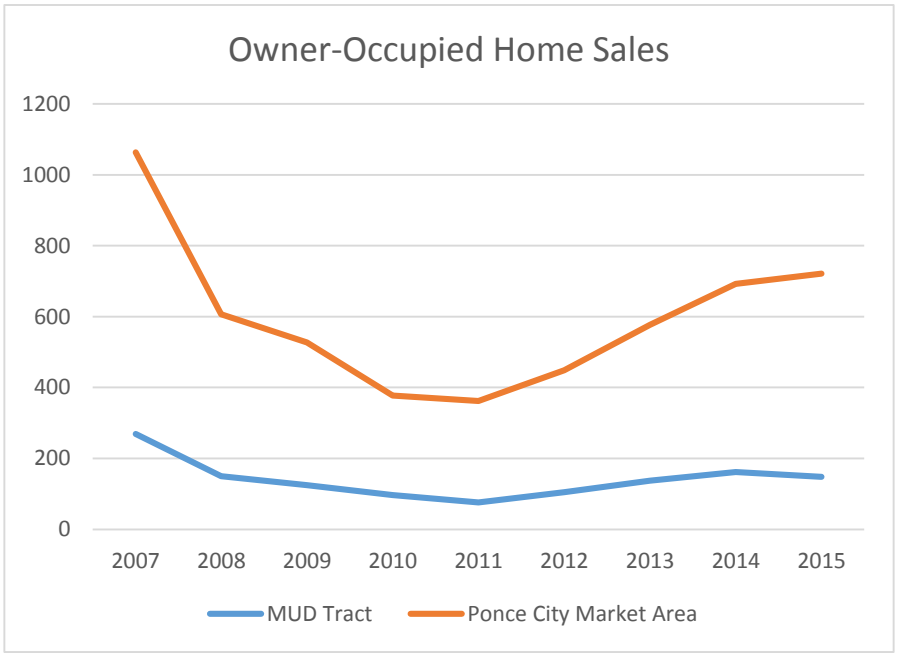

% Change in Median Gross Rent
20%
15%
10%
5%
0%
-5%
-10%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Ponce City Market Area
Atlanta

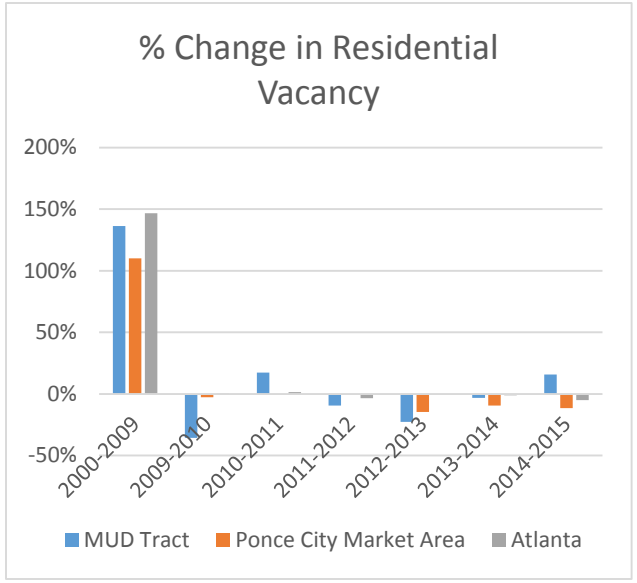

Median Gross Rent
$1,200
$1,000
$800
$600
$400
$200
$0
2000
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Ponce City Market Area
Atlanta

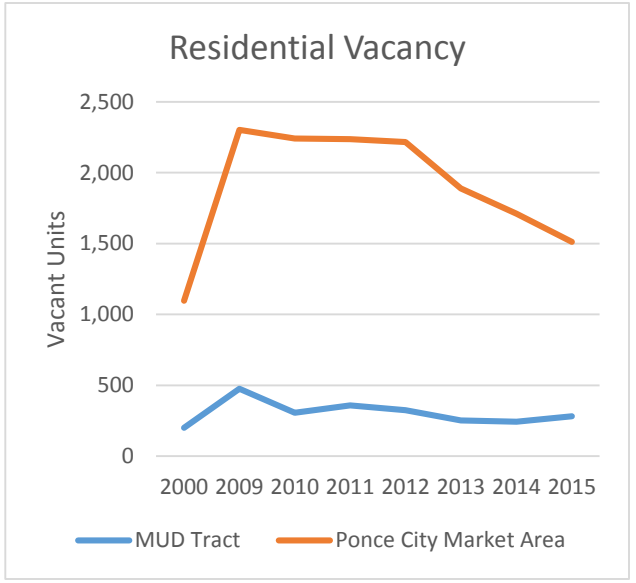

% Change in Average Owner-Occupied Home Loan Value
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Ponce City Market Area
Atlanta


Average Owner-Occupied Home Loan Value (1,000s)
$350.00
$300.00
$250.00
$200.00
$150.00
$100.00
$50.00
$-
2007
2008
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Ponce City Market Area
Atlanta

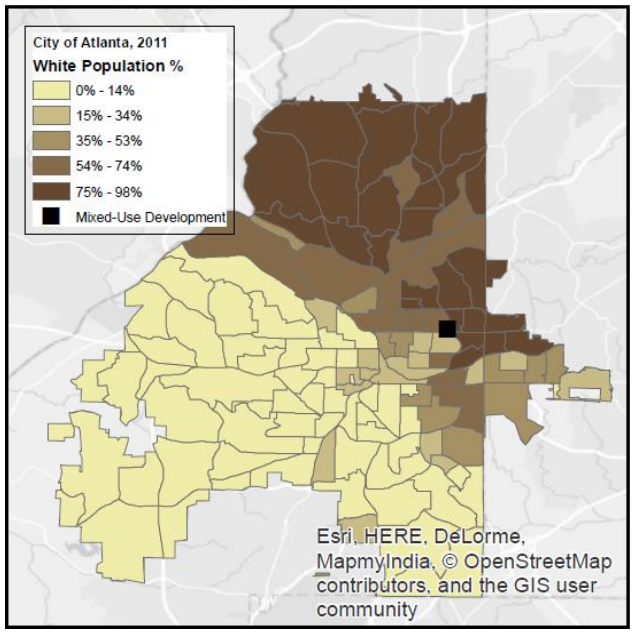

% Change in Owner-Occupied Home Sales
80%
60%
40%
20%
0%
-20%
-40%
-60%
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Ponce City Market Area
Atlanta


Owner-Occupied Home Sales
1200
1000
800
600
400
200
0
2007
2008
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Ponce City Market Area


% Change in Residential Vacancy
200%
150%
100%
50%
0%
-50%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Ponce City Market Area
Atlanta


Residential Vacancy
2,500
2,000
1,500
1,000
500
0
Vacant Units
2000 2009 2010 2011 2012 2013 2014 2015
MUD Tract
Ponce City Market Area


Residential Vacancy inAtlanta
50000
45000
40000
35000
30000
25000
20000
15000
10000
5000
0
Vacant Units
2000 2009 2010 2011 2012 2013 2014 2015


City of Atlanta, 2011
White Population %
0% - 14%
15% - 34%
35% - 53%
54% - 74%
75% - 98%
Mixed-Use Development
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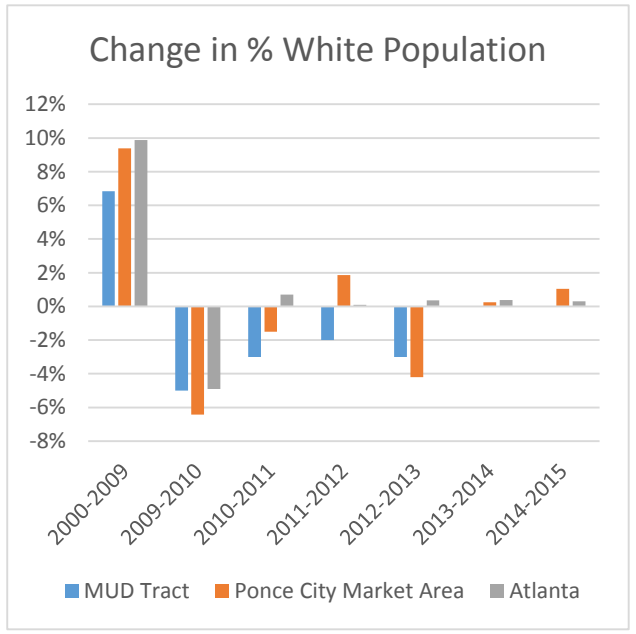
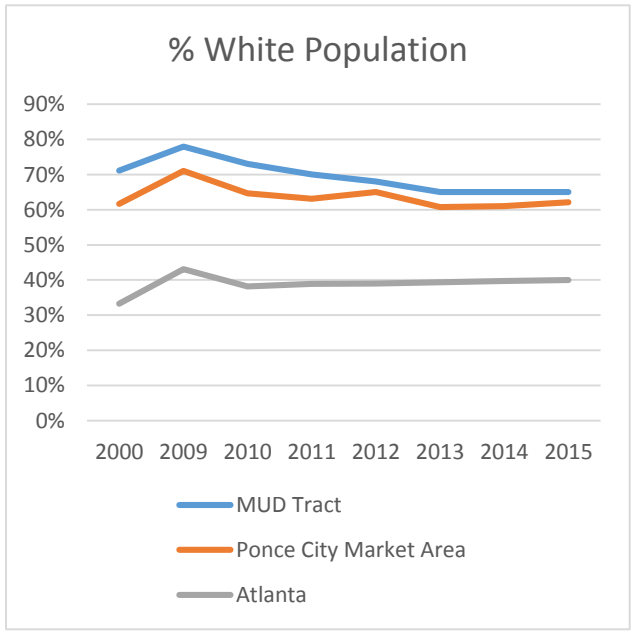

Change in % White Population
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Ponce City Market Area
Atlanta


% White Population
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2000 2009 2010 2011 2012 2013 2014 2015
MUD Tract
Ponce City Market Area
Atlanta

IV. Remington Row

Address: 2700 Remington Ave, Baltimore, MD 21211
Developer: Seawall Development Corporation
Neighborhood: Remington
Public Finance: NMTC
Construction Period: 2015-2016

Neighborhood Context

Remington is a historically distressed neighborhood in central Baltimore that has seen an influx of new development and new residents over the last decade. It has a history similar to many formerly industrial in-town neighborhoods. White flight, new highway construction, and the loss of previously reliable quarry and manufacturing jobs beginning in the 1940s and 50s led to neighborhood decline. The local housing stock deteriorated and crime rates increased. Newspaper reports from the late 1970s describe Remington as suffering from "many problems – youthful alcoholism, vandalism, poor housing, few stores, traffic congestion…" A 1980 study by a local CDC similarly finds that a lack of basic amenities like a pharmacy, grocery store, or fire station, and notes that 80% of the neighborhood population had not finished high school. The drug trade was common on neighborhood street corners through the 1990s. The neighborhood began to turn around in the 1990s, as urban populations nationwide began growing again and Remington became popular for new residents seeking an inexpensive place to live (Greater Remington Improvement Association, 2013).

Remington continues to have a large number of vacant industrial warehouse properties and dilapidated residential structures; until recently it has been considered unsafe by residents of the surrounding neighborhoods. Remington immediately abuts the Johns Hopkins University main campus in Homewood, and university staff would warn students and faculty not to go into the neighborhood. In 2011, the university began looking at ways to improve the neighborhoods surrounding its campus. Student surveys had indicated the real and perceived negative attributes of the University's urban context were hurting

its ability to compete for students and faculty against similarly prestigious schools located in more traditional college-town environments like Chapel Hill, Georgetown, and Providence. It subsequently launched the Homewood Community Partners Initiative (McNeely, 2012), which included a $10 million fund to support development projects, the establishment of a land bank, and a neighborhood improvement fund that would make matching grants for community projects (Rienzi, 2012).

Today, the neighborhood is said to be undergoing a "rebirth," with "hip, trendy businesses opening up among historic row houses and corner stores." It was called "Baltimore's Neighborhood of the Year" by *City Paper* in 2013 (Maryland Department of Planning, 2017), in and 2016 *Baltimore Magazine* claimed it was "all the rage… in the midst of a major renaissance, evolving from gritty streets and vacant houses to a vibrant community with new businesses, warehouse apartments, and a fast-growing food scene (Woolever, 2016)." This is consistent with city-wide trends: Between 2010 and 2014, Baltimore added 4,800 residential buildings of 15 units or more. The growth is largely being driven by new, young, college educated residents (Sherman, 2014).

The neighborhood has been a locus of developer interest for several years, but its highest profile projects have all been implemented by Seawall Development. Seawall was among the first developers to work in Remington, and in 2007 undertook a $21 million mixed-use historic renovation called Miller's Court. The project included all affordable residential units targeted toward teachers, as well as nonprofit office space and a café. In 2012, a group of teachers approached the Seawall CEO about owner-occupied housing, and the company gutted and renovated 13 abandoned row houses near Miller's Court. The houses will sold for $150,000 to $200,000, with incentives for young teachers and police officers. In 2010, Baltimore City Council approved development plans for a large retail center in Remington called 25th Street Station that would have includes a Walmart and a Lowe's. The community successfully resisted the development, demanding more local retail and a development that fit with the character of the community. After four years of conflict, the original developer sold the property to Seawall. The new owners bought the property without a defined end-goal, but promised to respect community wishes regarding potential tenants (Perl, 2014).

Demographic Trends

In multiple respects, the neighborhoods around the development were on the upswing prior to construction of Remington Row. The area's population is growing faster than the city's and is increasingly

educated; Baltimore and the Remington Row area have steadily increased the portions of their populations with college degrees, but the percent was 24% higher for the Remington area in 2015. This gap has widened from 17% in 2010. Residential vacancy in the Remington area is down 38% from its peak in 2010, having declined 32% faster than the city overall. The median income for the study area had been declining, but spiked upward from 2014 to 2015. The median rent for the Remington area has tracked closely with the median rent for the city, but owner-occupied housing has outperformed Baltimore overall since 2011. Remington Row is located at the southern tip of a territory with a population that is among the whitest, wealthiest, and most educated in Baltimore. At the same time, it borders the Old Goucher neighborhood, which has a median rent and median income that are among the lowest in Baltimore.

The Project

Remington Row is a 5-story, 250,000 square-foot mixed-use building that includes 108 residential apartments, 30,000 square feet of office space, and 14,905 square feet of ground floor retail. The building also has three levels of underground parking. The 108 residential units comprise 26 two-bedroom apartments and 82 one-bedroom apartments. 22 of the one-bedroom units are income restricted to 80% AMI or below for the duration of the 7-year compliance period attached to the New Market Tax Credit allocation. It was the first new-construction development in the neighborhood in decades, but the appraiser noted that the neighborhood was already experiencing considerable redevelopment. Remington Row is located three blocks away from the edge of the Johns Hopkins campus, in a residential area predominated by two-story row housing that is also about two miles away from Baltimore's downtown.

The project did not meet with challenges in filling available space. The 108 apartments were all leased a month before the project was scheduled to be completed in August 2016, and The 30,000 square feet of office space is located on the second floor and was 100% pre-leased to Johns Hopkins Community Physicians, Inc., a nonprofit practice that has locations throughout the Baltimore-Washington, DC area. The clinic provides over 100,000 patient visits annually. The retail was also 90% pre-leased, with 4 of the five available spaces housing neighborhood-serving businesses including a drug store (Rite Aid), a hair salon, a dry cleaners, and an acupuncture studio. A leasing agent for Seawall credited the neighborhood as an asset for Remington Row's tenants, saying, "People come here for that neighborhood sense. They like being early adapters (Kelly, 2016)."

Seawall considers Remington Row to be the first phase of a three-phase Planned Unit Development (PUD) that will redevelop several blocks of Remington Avenue in a new "Main Street" concept. The second phase was completed in December 2016, with the conversion of a former auto body shop into a 12,000 square foot food hall with office and retail on the second floor. The third phase will entail the conversion of two existing warehouse into residential with ground floor retail and a pedestrian plaza. The Remington Row phase is Seawall's only new construction in the neighborhood, with plans for the other buildings to be renovated (Litten, 2013). The three-block plan was approved by the Baltimore Urban Design and Architecture Review Panel, which agreed in 2013 that the "gentrifying neighborhood" was in need of additional retail (Perl, 2013).

Figure 8. Rendering of Seawall Development Company's three-stage main street concept for Remington Avenue. Remington Row is in the foreground..

Financing the Project

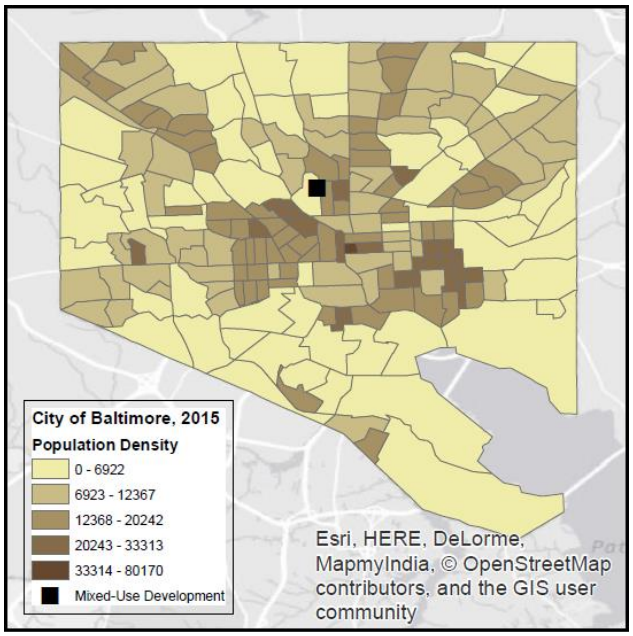
Table 6. Capital Stack for Remington Row, 2015-2016

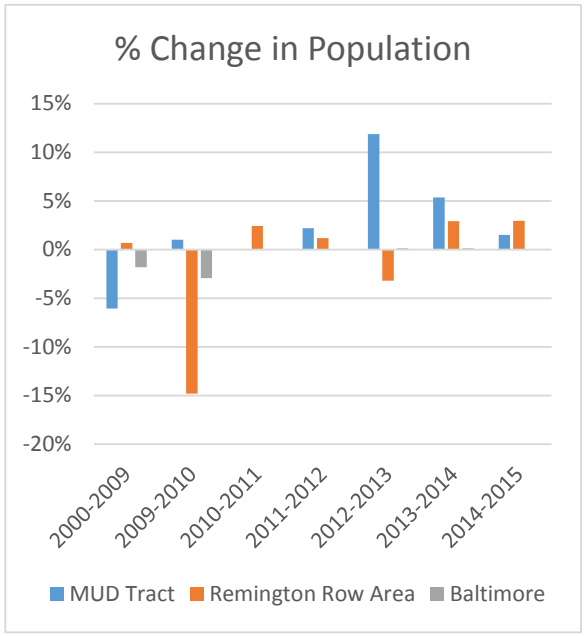
Source	Amount	Percent
Line of Credit	$1,300,000	
NMTC	$30,000,000	77%
Subordinate Debt	$3,500,000	9%
Equity	$4,040,000	10%
Total	*$38,840,000*	*100%*

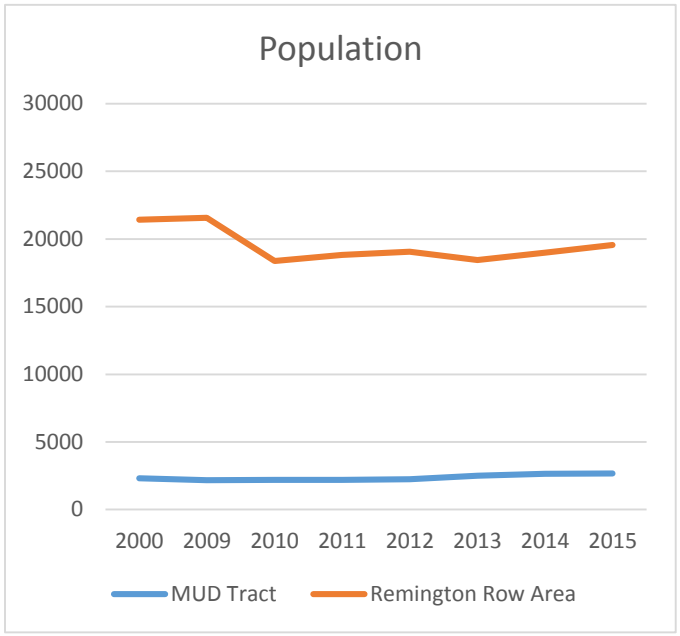
The Remington Row development had a total cost of $38.9 million. Enterprise Community Loan Fund provided the initial capital for the development, extending Seawall a $5.8 million line of credit to purchase the properties along Remington Ave it required to assemble its Main Street concept. Seawall initially drew $1.3 million to purchase the six parcels that became Remington Row. The project subsequently was financed mostly with investment leveraged by New Market Tax Credits (NMTCs). Multiple community development entities (CDEs) provided allocation to the project: Enterprise Community Partners provided $15 million of tax credit allocation, Low Income Investment Fund (LIIF) contributed $10 million, and Bank of America contributed $5 million. The Charlotte-based Bank of America Community Development Corporation was the sole purchaser of the tax credits. With $30 million of NMTCs, the project will received a subsidy of roughly $6 million at the end of the 7-year compliance period.

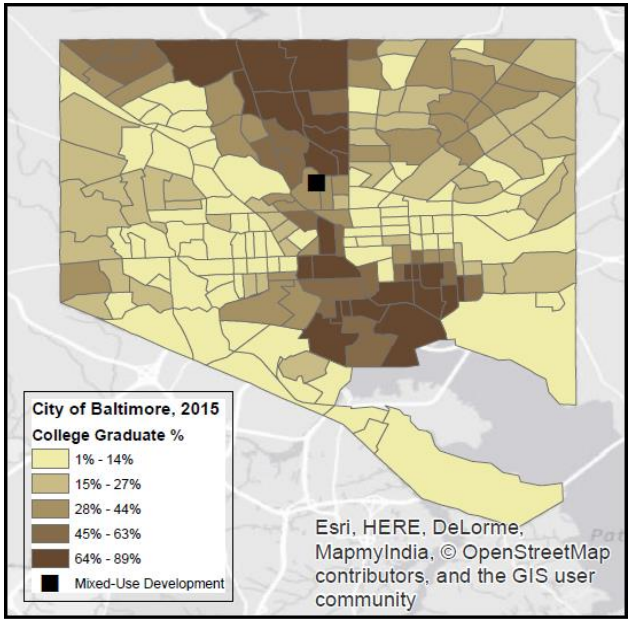
Seawall financed the remainder of the development with its own equity and by borrowing from government and philanthropic partners. The Calvert Foundation Social Investment Fund loaned the project $2.5 million in subordinated debt, and the Maryland Department of Housing and Community Development provided the last piece of gap financing with a $1 million from its Homeownership, Housing Development and Special Loans Program. Seawall contributed $4,040,000 in equity (Cohn Reznick, 2014).

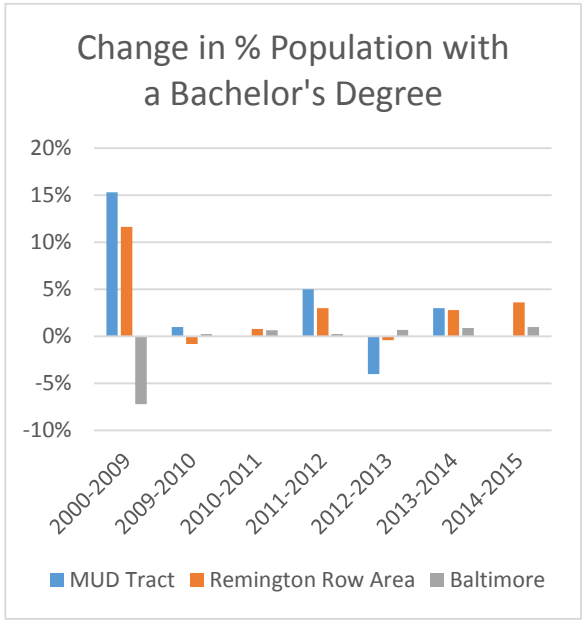
Figure 9.1 – 9.23. Baltimore demographic profile (2015) and trends (2000-2015).

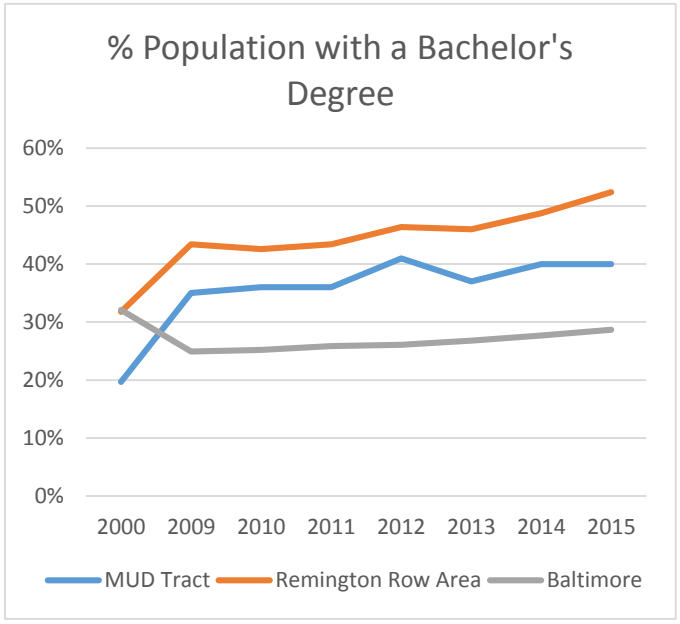


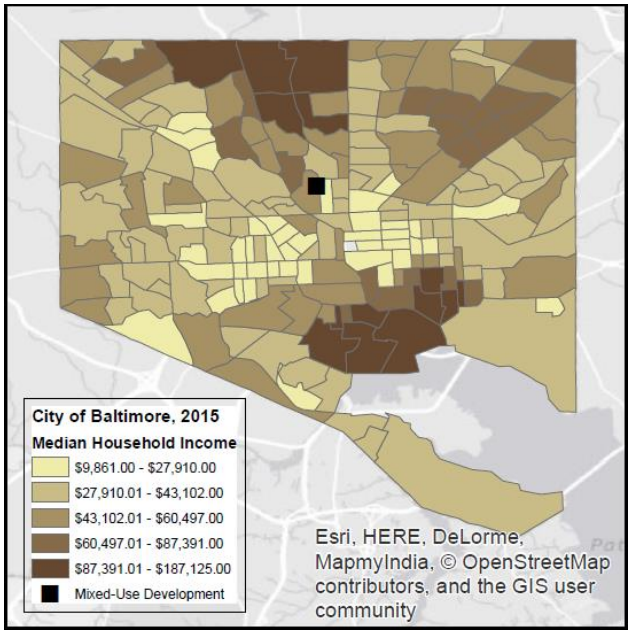











City of Baltimore, 2015
Median Household Income
$9,861.00 - $27,910.00
$27,910.01 - $43,102.00
$43,102.01 - $60,497.00
$60,497.01 - $87,391.00
$87,391.01 - $187,125.00
Mixed-Use Development
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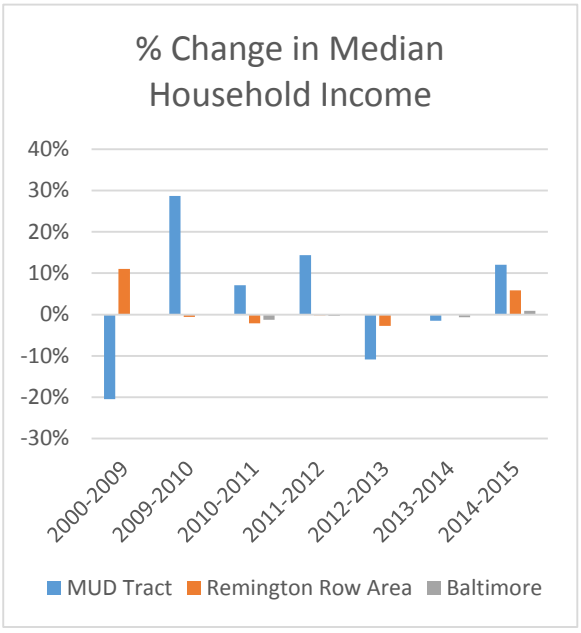
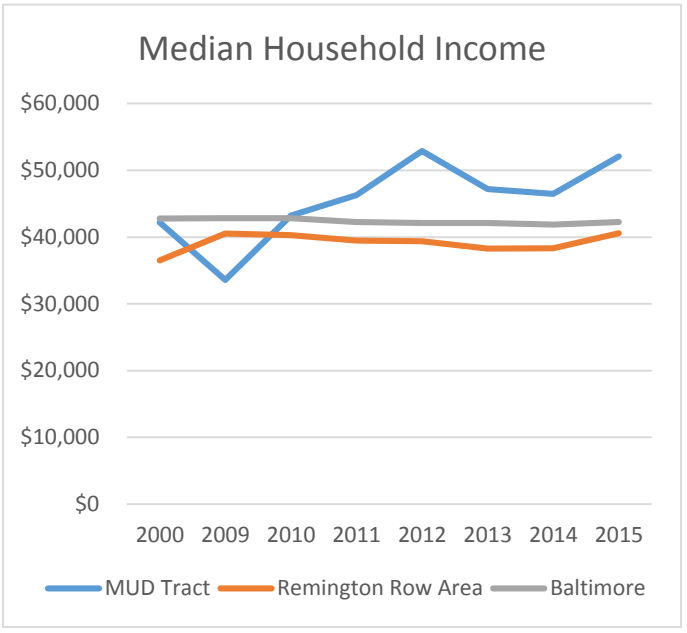
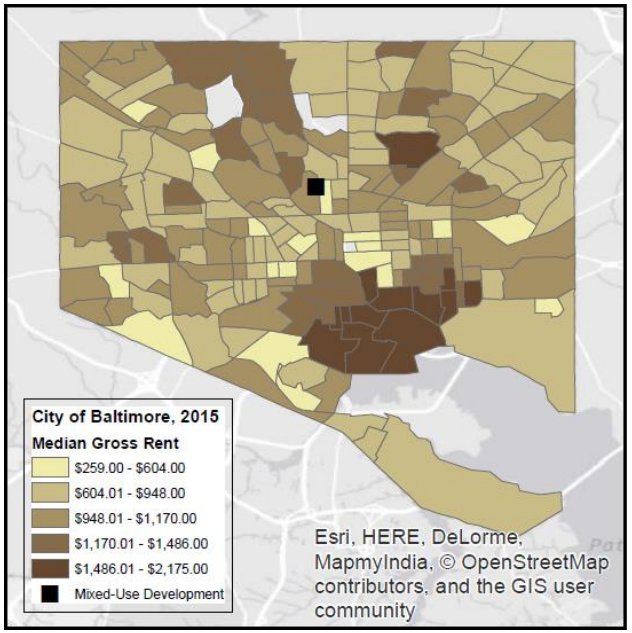

% Change in Median Household Income
40%
30%
20%
10%
0%
-10%
-20%
-30%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Remington Row Area
Baltimore


Median Household Income
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
2000
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Remington Row Area
Baltimore


City of Baltimore, 2015
Median Gross Rent
$259.00 - $604.00
$604.01 - $948.00
$948.01 - $1,170.00
$1,170.01 - $1,486.00
$1,486.01 - $2,175.00
Mixed-Use Development
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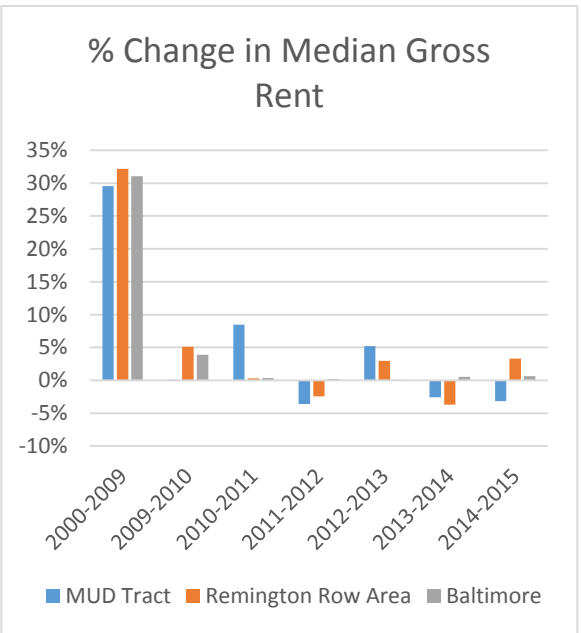
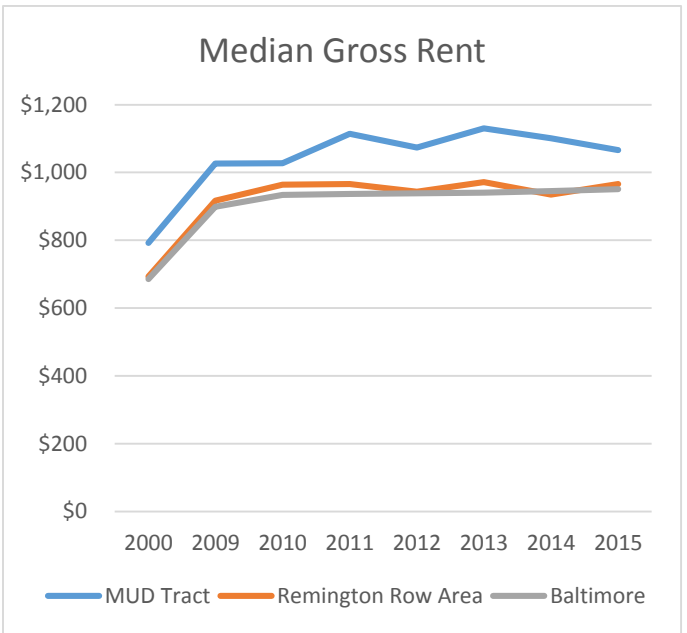
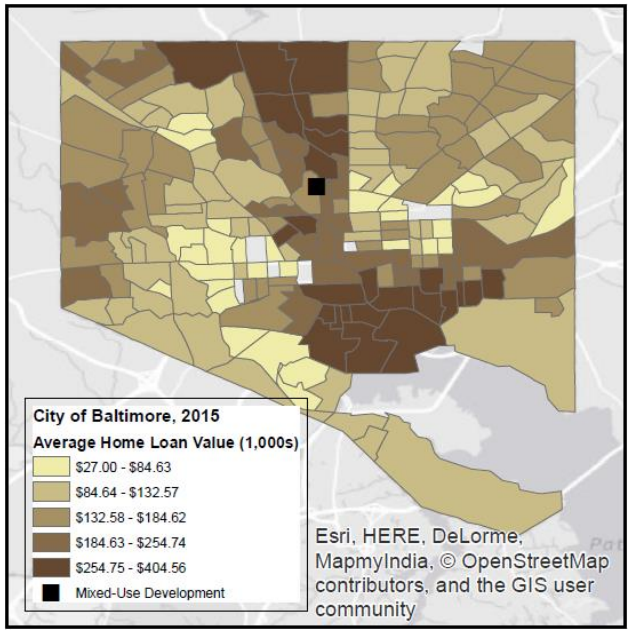
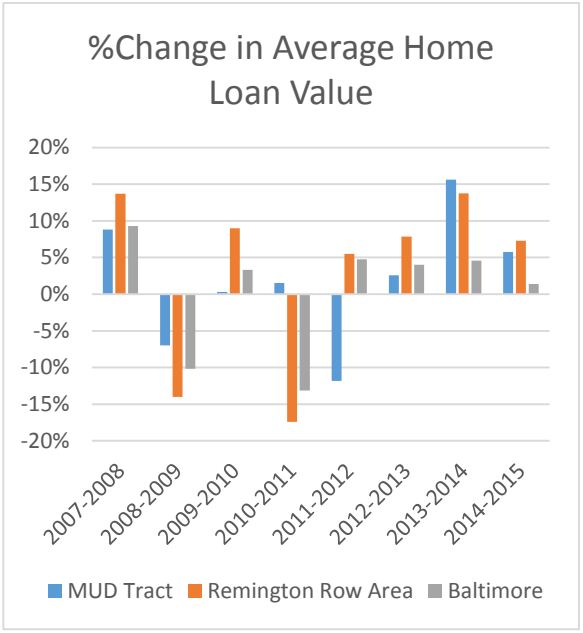
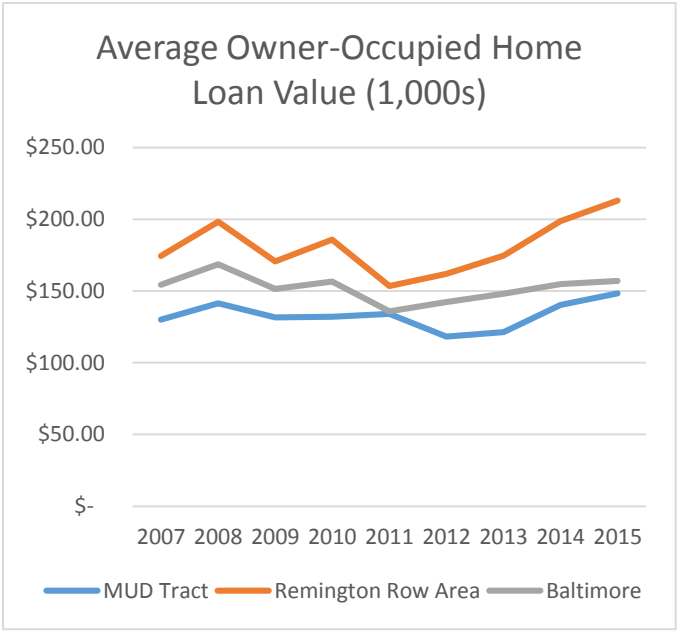
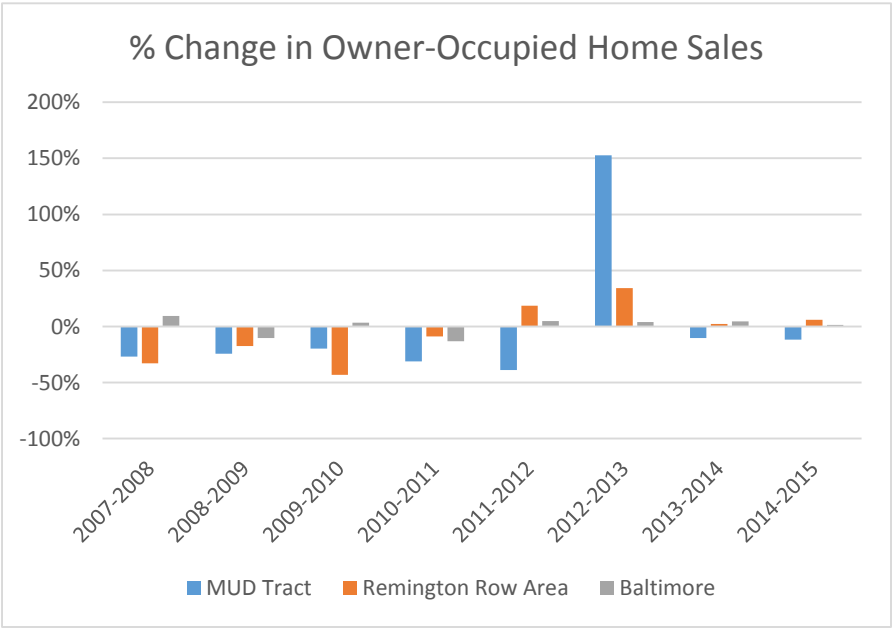

% Change in Median Gross Rent
35%
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Remington Row Area
Baltimore

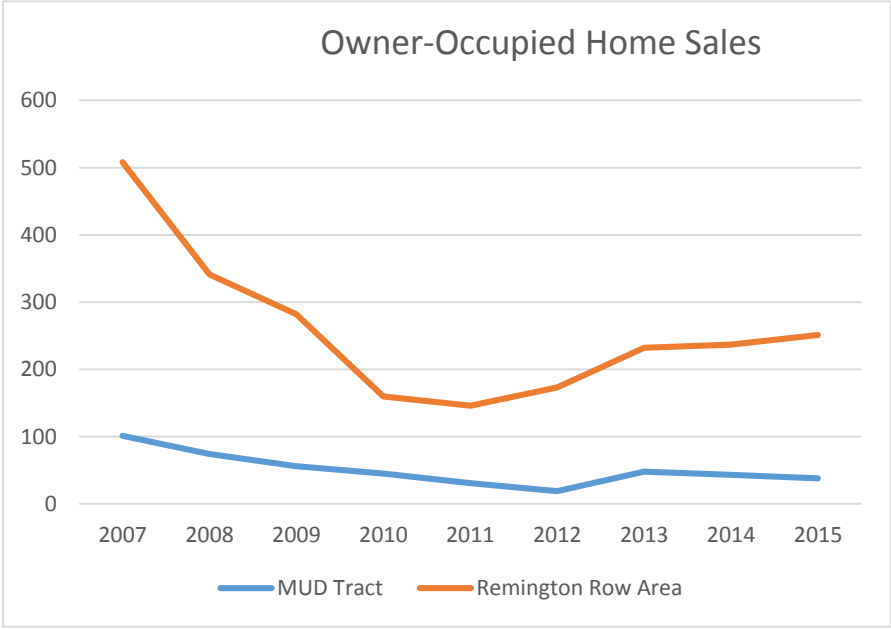

Median Gross Rent
$1,200
$1,000
$800
$600
$400
$200
$0
2000
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Remington Row Area
Baltimore

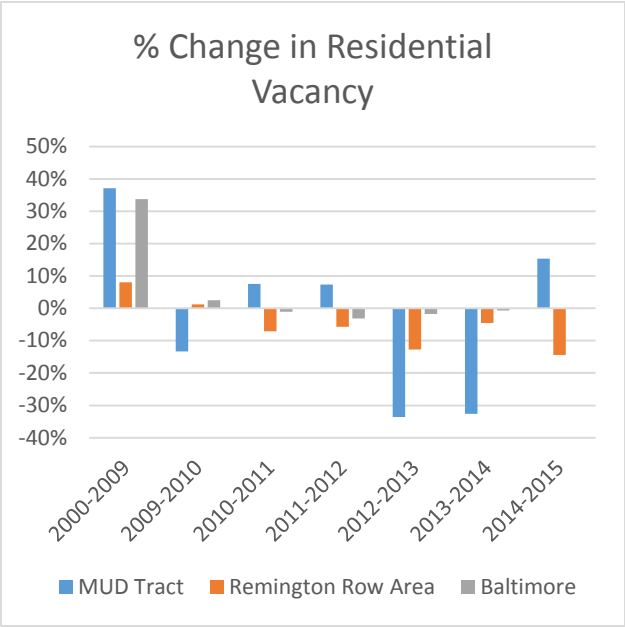

City of Baltimore, 2015
Average Home Loan Value (1,000s)
$27.00 - $84.63
$84.64 - $132.57
$132.58 - $184.62
$184.63 - $254.74
$254.75 - $404.56
Mixed-Use Development
Esri, HERE, DeLorme, MapmyIndia, © OpenStreetMap contributors, and the GIS user community

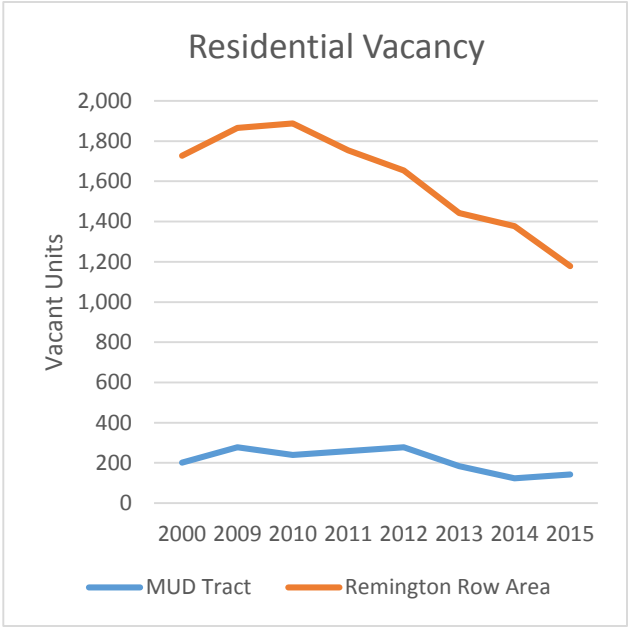

%Change in Average Home Loan Value
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Remington Row Area
Baltimore

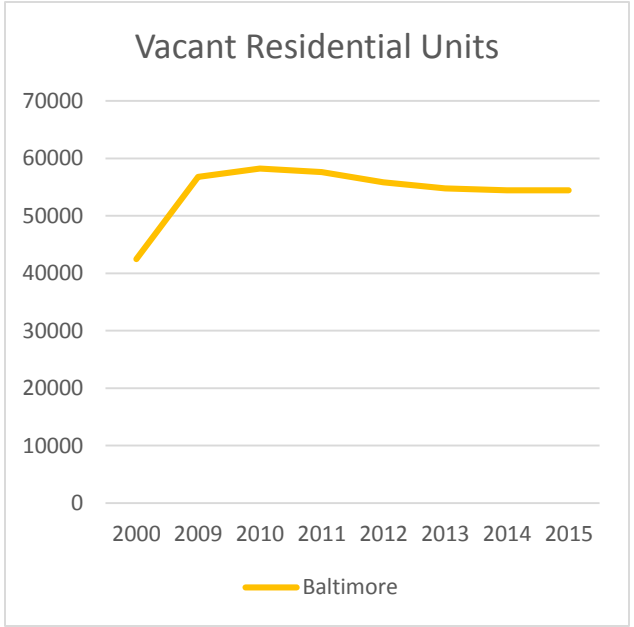

Average Owner-Occupied Home Loan Value (1,000s)
$250.00
$200.00
$150.00
$100.00
$50.00
$-
2007 2008 2009 2010 2011 2012 2013 2014 2015
MUD Tract
Remington Row Area
Baltimore

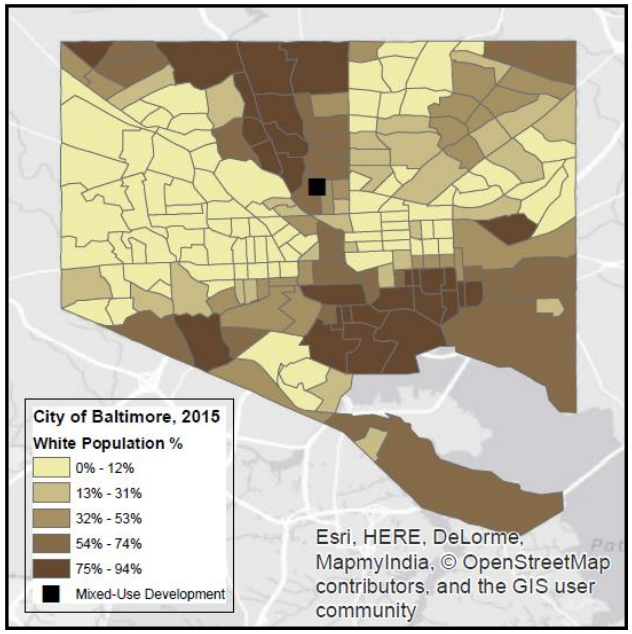

% Change in Owner-Occupied Home Sales
200%
150%
100%
50%
0%
-50%
-100%
2007-2008
2008-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Remington Row Area
Baltimore

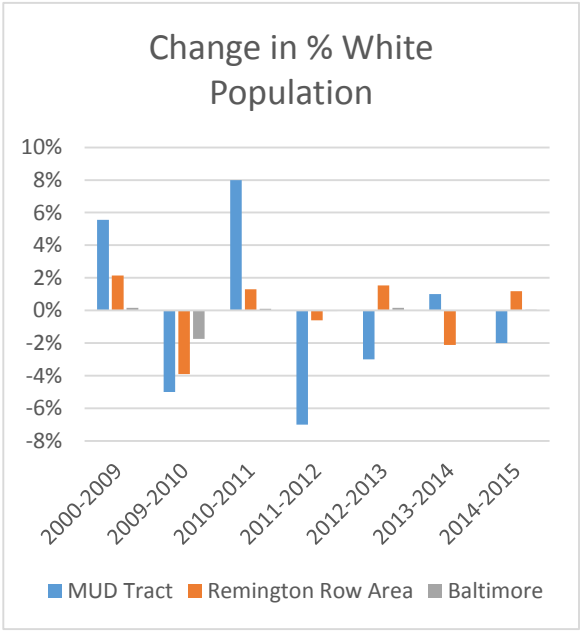

Owner-Occupied Home Sales
600
500
400
300
200
100
0
2007
2008
2009
2010
2011
2012
2013
2014
2015
MUD Tract
Remington Row Area

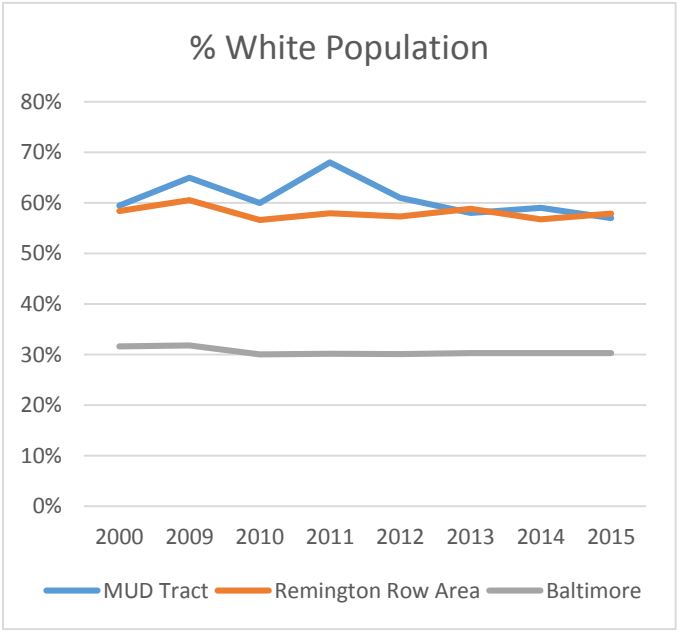

% Change in Residential Vacancy
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Remington Row Area
Baltimore


Residential Vacancy
Vacant Units
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
2000 2009 2010 2011 2012 2013 2014 2015
MUD Tract
Remington Row Area


Vacant Residential Units
70000
60000
50000
40000
30000
20000
10000
0
2000 2009 2010 2011 2012 2013 2014 2015
Baltimore

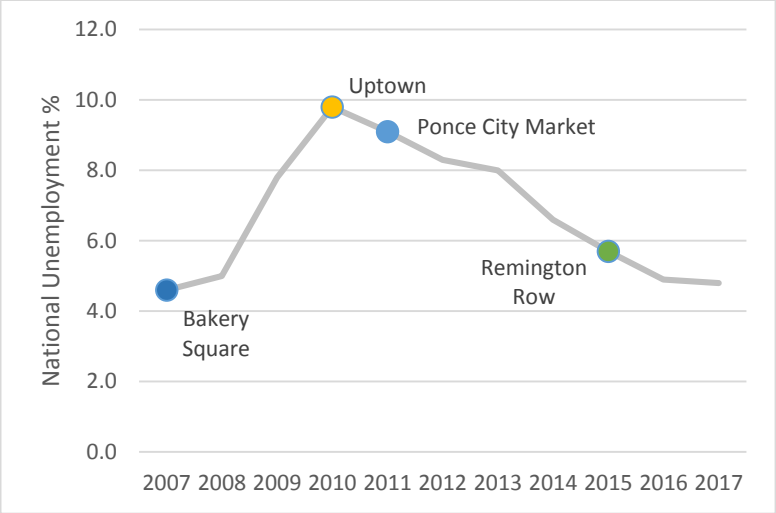

City of Baltimore, 2015
White Population %
0% - 12%
13% - 31%
32% - 53%
54% - 74%
75% - 94%
Mixed-Use Development
Esri, HERE, DeLorme, MapmyIndia, © OpenStreetMap contributors, and the GIS user community


Change in % White Population
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
2000-2009
2009-2010
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
MUD Tract
Remington Row Area
Baltimore


% White Population
80%
70%
60%
50%
40%
30%
20%
10%
0%
2000 2009 2010 2011 2012 2013 2014 2015
MUD Tract
Remington Row Area
Baltimore

Summary and Discussion

Figure 10. MUDs in the context of the national economy



This study has documented the development of four large-scale mixed-use developments that have widely been credited as revitalization successes. The cause and effect relationship between neighborhood improvements and these developments in unproven. Indeed, the limited longitudinal nature of available data and the relatively recent ascendency of mixed-use development makes it difficult to account for the impact of the business cycle on development. One project launched at the outset of the Great Recession while two others, Uptown and Ponce City Market, began construction in the trough of the recession. Only the latest, Remington Row, was undertaken after a sustained period of national economic recovery (see Figure 10). Likewise, some of the data in this study may be skewed by the presence of significant student populations living off-campus. These residents would be counted by the ACS, but in most cases do not support themselves or earn significant income. This may be depressing the median incomes of geographies surrounding Remington Row (near Johns Hopkins University), Uptown (near Case Western Reserve University and the Cleveland Institute of Art), and Bakery Square (near University of Pittsburgh and Carnegie Mellon University). Indeed, an increased attractiveness of these areas to students may perversely decrease the median income in the area as it revitalizes, and lead to greater rental housing compared to owner-occupied housing. This could explain the combination of diminishing incomes and increasing rents and home loan values seen at the area and tract levels. ACS data also would not show areas with increasing numbers of undergraduate students as more highly educated, since the metric only includes degree holders as a percentage of the population 25 years old and older.

Nonetheless, a basic demographic analysis reveals some illuminating characteristics of the neighborhoods in which these large, subsidized MUD are developed. Each development was delivered into a different category of neighborhood. Tract median incomes ranging from roughly $16,000 at Uptown to roughly

$70,000 at Ponce City Market. Likewise, college-educated adult populations ranged from 13% in the Bakery Square tract to 61% in the Ponce City Market tract. Demographic trends for each study area and tract are summarized in Table 7 below.

Table 7. Demographic trajectories in Mixed-Use Development study areas.

	Bakery Square Area 2007-2010		**Uptown Area 2010-2012**		**Ponce City Market Area 2011-2013**		**Remington Row Area 2015-2016**
	Pre	Post	Pre	Post (Phs. I)	Pre	Post (Phs. I)	Pre
Population	↘	↘	↘	→	↘	↗	↗
Percent College Graduates	↗	↗	↘	→	→	→	↗
Median Income	↘	↗	↘	→	↘	↗	→
Median Gross Rent	→	↗	↘	→	→	→	→
Home Sales	↘	↗	→	→	↘	↗	↗
Average Home Loan Value	→	↗	↗	↘	→	↗	↗
Residential Vacancy	↘	↘	↗	↘	→	↘	↘
Percent White	↗	↗	↘	↗	↘	→	→
Category	Prosperous		Distressed		Prosperous		Revitalizing
	Bakery Square Tract 2007-2010		**Uptown Tract 2010-2012**		**Ponce City Market Tract 2011-2013**		**Remington Row Tract 2015-2016**
	Pre	Post	Pre	Post (Phs. I)	Pre	Post (Phs. I)	Pre
Population	↗	→	↗	↗	↘	↗	↗
Percent College Graduates	↘	↘	↘	↗	→	→	↗
Median Income	→	↘	↗	↘	↘	→	↘
Median Gross Rent	↘	↗	↗	↗	→	→	↗
Home Sales	→	→	→	→	↘	↗	↗
Average Home Loan Value	↘	↗	↗	↗	↗	→	↗
Residential Vacancy	↘	↘	↘	↘	↘	↘	↘
Percent White	↘	↗	↘	→	↗	→	↗
Category	Distressed		Distressed		Prosperous		Revitalizing

Some commonalties were identified. All four cases were characterized by high inequality between the tracts containing the mixed-use development and at least one neighboring tract. Likewise, these developments were built in areas that had a higher percentage of white residents than their adjacent neighborhoods, but bordered census tracts that had majority minority populations. The pattern also holds for education, with all four developments locating adjacent to some of the most educated populations in

their respective cities. Income levels in the area around these mixed-use developments are more nuanced. Each was built on the edge of a tract in the middle quintile for income in their city or higher, bordering a tract in the lowest quintile. Except for the Uptown development in Cleveland, these MUDs are outposts on the borders of the whitest, wealthiest, and most educated territories in their cities. As such, they appear to be incrementally advancing development rather than making viable new markets. With the exception of Uptown, these developments appear to have their cake and eat it too: subsidy through their proximity to or location in a low-income census tract and the ability to capture more affluent populations nearby. Moreover, in all four cases the large MUDs were preceded by a variety of other projects, including other mixed-use development, transportation enhancements, retail, for-sale housing, and parks and greenspace improvements. Accordingly, none of these developments were first-movers in their respective neighborhoods, building off the momentum generated by other subsidized improvements.

Another commonality is that each project was built by a local development company. Likewise, most of the financing came from local sources, with the exception of Remington Row, which was financed primarily by Bank of America and national NMTC CDEs. This reinforces the need for highly specific market knowledge to capitalize on the confluence of demographic trends and prior improvements.

The two historic renovation projects, Bakery Square and Ponce City Market, deserve somewhat separate treatment given the significant difference in the cost of the projects and the types of subsidy involved from the two new construction projects. Both projects required significant environmental remediation, and used their respective subsidies to preserve large structures on land that would have likely been less expensive to develop if they were demolished. Likewise, these hulking structures very well could have dragged down the development potential of their surrounding neighborhoods if left empty. Public support for these projects could be seen as a form of risk mitigation. Both historic renovation projects required very little time to assemble financing, especially considering that the investments required were more than double the amounts put into the new construction projects. However, this can be explained by the ability of Jamestown Properties and the Feil Organization to self-finance the initial stages of the property through their internal private equity funds.

Only one of the four developments appears to qualify as a catalytic project based on the surrounding demographic trends. While few dramatic changes took place in any study area over the period for which data were available, the area around Uptown was clearly in decline. The area was slowly losing population, the percentage of residents with a college degree was declining, apartment rents were dropping, and vacancy was on the rise. One anomaly was a rise in home loan values prior to 2010, but the number of

homes sold each remained stagnant and extremely low compared to the other study areas. Median household incomes were very low. These negative trends reversed slightly during the initial construction of Uptown and stabilized after Phase I opened. The two historic renovation projects, Bakery Square and Ponce City Market, were delivered into markets with more nuanced dynamics, while the area around Remington Row was already unambiguously revitalizing. Ponce City Market (the area with the highest socio-economic indicators) received the least percentage of subsidy, while it is notable that the largest percentage of subsidized and nontraditional capital was brought to bear in Remington Row (See Table 8), which was located in a neighborhood clearly in the process of revitalization. Uptown's Phase I, by contrast, required less developer equity but was more heavily leveraged with conventional debt, and located in an area with more challenging demographics. This difference, in light of the very similar concepts behind these two developments, calls into question the wisdom of the Remington Row subsidy.

Table 8. Summary of MUD Capital Sources

	Bakery Square	**Uptown**	**Ponce City Market**	**Remington Row**
Subordinate or nontraditional capital	45%	60%	17%	90%
Conventional senior debt	22%	35%	60%	0%
Developer equity	33%	5%	23%	10%

Interestingly, these mixed-use developments generally did not utilize large quantities of local public funds in subsidizing development or transferring risk. Only the Bakery Square project relied on significant public funding from the City, via a TIF, or the State, through Brownfield remediation grants. By contrast, the developers of all four MUDs heavily depended on federal programs to make their projects pencil out. New Market Tax Credits were integral to the new construction projects, Uptown and Remington Row, while Historic Tax Credits formed large percentages of the capital stack for rehabilitation projects in Bakery Square and Ponce City Market. Likewise, foreign direct investment injected through the EB-5 Immigrant Investor visa program served as a key source of gap financing during the recession. Local actors control and prioritize these sources of capital, but ultimately the U.S. Treasury is subsidizing the largest portions of these projects through tax credits. It appears unlikely that they would have been successfully completed without these programs.

In sum, while mixed-use development itself remains highly non-standard and requires local knowledge to complete, this study has identified some commonalities in the types of neighborhoods that developers seek for these types of projects. They are sites of inequality, in which tracts with high socio-economic

indicators are located next to tracts with low socio-economic indicators. All study areas and development tracts had decreases in residential vacancy and had significant public and private investments prior to the construction of the mixed-use development. The size of the project, the percent of subsidy, and the percent of standard debt required to complete a project did not correspond with the degree of the neighborhood's distress, suggesting that other factors like strong relationships with funders or the ability to self-finance play a role in attracting subsidy. These large-scale mixed-use projects may have numerous benefits, but the locational preferences of developers and pattern of subsidy usage suggest that they are not actually doing the heavy lifting of neighborhood revitalization. More basic amenities, like transportation and retail came first in each case. Three of the four case studies show only an incremental advance of development activity from already developed territories - public and philanthropic funders should attempt to identify ways to draw developers further away from the white, wealthy, and educated parts of their cities.

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